FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT OF 1983

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 1234

TO ESTABLISH DOMESTIC CONTENT REQUIREMENTS FOR MOTOR VEHICLES SOLD OR DISTRIBUTED IN INTERSTATE COMMERCE IN THE UNITED STATES

SEPTEMBER 15, 1983

Serial 98-34

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FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT OF 1983

THURSDAY, SEPTEMBER 15, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 9:50 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Marty Russo presiding.

[The press release announcing the hearing, and a copy of the bill, H.R. 1234, follow:]

[Press release of Monday, September 12, 1983]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON H.R. 1234, THE FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT OF 1983, ON SEPTEMBER 15, 1983

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on H.R. 1234, the Fair Practices in Automotive Products Act of 1983. The hearing will be held on Thursday, September 15, 1983, beginning at 9:30 a.m., in the main Committee hearing room, 1100 Longworth House Office Building.

The Fair Practices in Automotive Products Act, also known as the "domestic content" bill, would establish domestic content requirements for sales of motor vehicles in the United States beginning with model year 1985. These content requirements would have major implications not only for the United States automobile industry and its future competitiveness internationally, but also for U.S. trading relations as well. The Subcommittee will address the likely implications for the domestic industry of establishing a local content scheme in view of the dramatic recovery in the auto industry, as well as the implications for U.S. import policy and our future trading relations with other countries.

H.R. 1234 was reported by the House Committee on Energy and Commerce on June 30, 1983, with a Committee amendment in the nature of a substitute. Consideration by the Committee on Ways and Means is pursuant to the terms of the concurrent referral of the bill to both House Committees. During the 97th Congress, the Subcommittee held nine days of hearings on a similar domestic content proposal, H.R. 5133, and has recently requested additional written comments from witnesses heard at that time.

Testimony will be received by invitation only from various witnesses, including Administration officials, organized labor, and other interested parties.

Any interested person or organization may file a written statement for inclusion in the printed record. Persons submitting a written statement should submit at least six (6) copies by the close of business, Monday, September 19, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 100 additional copies for this purpose if provided to the full Committee office during the course of the public hearing.

98TH CONGRESS
1ST SESSION

H. R. 1234

To establish domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 2, 1983

Mr. OTTINGER (for himself, Ms. MIKULSKI, Mr. PEASE, Mr. SHARP, Mr. GEPHARDT, Mr. CARR, and Mr. DINGELL) introduced the following bill; which was referred to the Committee on Energy and Commerce, and concurrently to the Committee on Ways and Means for a period ending not later than thirty calendar days following the date on which the Committee on Energy and Commerce files its report in the House

MARCH 3, 1983

Additional sponsors: Mr. FORD of Michigan, Mr. ECKART, Mr. ALEXANDER, Mr. KILDEE, Mr. TRAXLER, Mr. ASPIN, Ms. KAPTUR, Mr. BONIOR of Michigan, Mr. PRICE, Mr. MURPHY, Mr. STARK, Mr. NOWAK, Mr. DYMALLY, Mr. FROST, Mr. KOSTMAYER, Mr. STOKES, Mr. WALGREN, Mr. WEAVER, Mr. HERTEL of Michigan, Mr. DWYER of New Jersey, Mr. LONG of Maryland, Mr. MURTHA, Mr. RATCHFORD, Mr. WON PAT, Mr. RUSSO, Mr. TORRES, Mr. ADDABBO, Mr. CONYERS, Mr. CLAY, Mr. COYNE, Mr. FAUNTROY, Mr. WILSON, Mr. STRATTON, Mr. D'AMOURS, Mr. BEVILL, Mr. MORRISON of Connecticut, Mr. HORTON, Mr. ZABLOCKI, Mr. PERKINS, Mr. JACOBS, Mrs. COLLINS, Mr. LEVIN of Michigan, Mr. GEJDENSON, Mr. TORRICELLI, Mr. HUBBARD, Mr. ROE, Mr. CROCKETT, Mr. HALL of Ohio, Mr. HUGHES, Mr. LAFALCE, Mr. VANDERGRIFF, Mr. RINALDO, Mr. SEIBERLING, Mr. ANNUNZIO, Mr. BORSKI, Mr. OBERSTAR, Mr. DAVIS, Mr. MITCHELL, Mr. FOGLIETTA, Mr. DYSON, Mr. LEACH of Iowa, Mr. RANGEL, Mr. HILLIS, Mr. SHELBY, Mr. ALBOSTA, Mr. BURTON of California, Mr. STUDDS, Mr. SHANNON, Mr. MCDADE, Mrs. HALL of Indiana, Mr. WASHINGTON, Mr. FRANK, Mr. YOUNG of Missouri, Mr. SAVAGE, Mr. FEIGHAN, Mr. MAVROULES, Mrs. JOHNSON, and Mr. MATSUI

A BILL

To establish domestic content requirements for motor vehicles sold or distributed in interstate commerce in the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Fair Practices in Automotive Products Act".

SEC. 2. PURPOSE.

The purpose of this Act is to encourage the production in the United States by American workers of automotive products which are sold or distributed in interstate commerce.

SEC. 3. DEFINITIONS.

(a) IN GENERAL. As used in this Act—

(1) The term "automotive products" means motor vehicles and parts for use in the production of new motor vehicles.

(2) The term "added domestic value", when used with respect to a vehicle manufacturer for any model year, means the aggregate of—

(A) the production costs of all automotive products sold by the vehicle manufacturer in the

United States, other than for export, during that model year, and

(B) the export value of all automotive products that were either—

(i) manufactured by the vehicle manufacturer in the United States and exported from the United States by, or on behalf of, such manufacturer during that model year, or

(ii) manufactured in the United States by any other person and purchased by the vehicle manufacturer and exported from the United States by, or on behalf of, such manufacturer during that model year, but only to the extent that the export value of such automotive products is not included in automotive products to which clause (i) applies;

reduced by the aggregate appraised value, as determined for purposes of the customs laws, of all automotive products that were entered by, or on behalf of, the vehicle manufacturer during that model year.

(3) The term "domestic content ratio" means, with respect to a vehicle manufacturer for any model year, the percentage determined by multiplying by one hundred the factor obtained by dividing—

(A) the added domestic value determined for that manufacturer for that model year under paragraph (2); by

(B) the production costs determined, for purposes of paragraph (2)(A), for that manufacturer for that model year.

(4) The term "entered" means entered, or withdrawn from warehouse for consumption, within the customs territory of the United States.

(5) The term "model year" means a vehicle manufacturer's annual production period (as determined by the Secretary) which includes January 1 of a calendar year, or if a vehicle manufacturer does not have an annual production period, the calendar year. A model year shall be designated by the year in which January 1 occurs.

(6) The term "motor vehicle" means any three-wheeled or four-wheeled vehicle propelled by fuel which is manufactured primarily for use on the public streets, roads, and highways (except any vehicle operated exclusively on a rail or rails), and which is rated as ten thousand pounds gross vehicle weight or less. Such term does not include (A) any motorcycle, or (B) any vehicle determined by the Secretary to be an automobile capable of off-highway operation within the

meaning of section 501(3) of the Motor Vehicle Information and Cost Savings Act.

(7) The term "production cost" means, with respect to an automotive product, the wholesale price to dealers in the United States for that product as set forth in the vehicle manufacturer's official dealer price list that is in effect at the time the product is sold at wholesale.

(8) The term "Secretary" means the Secretary of Transportation.

(9) The term "vehicle manufacturer" means any person engaged in the business of producing motor vehicles for ultimate retail sale in the United States and includes as one entity all persons who control, are controlled by, or are in common control with, such person. Such term also includes any predecessor or successor of such a vehicle manufacturer.

(b) DETERMINATION OF ADDED DOMESTIC VALUE.—For purposes of applying paragraph (2) of subsection (a)—

(1) Two or more vehicle manufacturers may not include, for purposes of determining their respective added domestic values, the value of the same automotive product; but such manufacturers may, under rules prescribed under section 4(b), apportion the value of that automotive product among them.

(2) The term "export value" means, with respect to an automotive product—

(A) the free-on-board price for which the vehicle manufacturer sells the product for exportation from the United States; or

(B) if the vehicle manufacturer sells the product for such exportation to a buyer that controls, is controlled by, or is under common control with, such manufacturer, the price at which such or similar products are freely offered for free-on-board sale to all purchasers in the principal markets of the United States in the usual wholesale quantities and in the ordinary course of trade for such exportation.

SEC. 4. DOMESTIC CONTENT RATIOS FOR MODEL YEAR 1985 AND THEREAFTER.

(a) RATIOS.—In order to carry out the purpose of this Act, for each model year beginning after January 1, 1984, the minimum domestic content ratio for a vehicle manufacturer shall not be less than the higher of—

(1) the domestic content ratio achieved by the vehicle manufacturer in model year 1984 reduced by 10 per centum; or

(2) the applicable minimum content ratio specified in the following table:

Number of motor vehicles produced by the manufacturer and sold in the United States during such year:	Minimum domestic content ratio:
Model Year 1985	
Not over 100,000	0 percent.
Over 100,000 but not over 900,000	The number, expressed as a percentage, determined by dividing the number of vehicles sold by 30,000.
Over 900,000	30 percent.
Model Year 1986	
Not over 100,000	0 percent.
Over 100,000 but not over 900,000	The number, expressed as a percentage, determined by dividing the number of vehicles sold by 15,000.
Over 900,000	60 percent.
Each Model Year After Model Year 1986	
Not over 100,000	0 percent.
Over 100,000 but not over 900,000	The number, expressed as a percentage, determined by dividing the number of vehicles sold by 10,000.
Over 900,000	90 percent.

(b) ALLOCATION OF AUTOMOTIVE PRODUCTS AMONG MANUFACTURERS.—In order to carry out the purpose of this Act, the Secretary shall prescribe rules or allocating automotive products among vehicle manufacturers in appropriate cases such as where—

(1) a vehicle manufacturer sells automotive products manufactured by it in the United States to another vehicle manufacturer;

(2) two or more vehicle manufacturers in joint venture produce automotive products in the United States; and

(3) a vehicle manufacturer produces motor vehicles for ultimate retail sale in the United States, some

of which will be sold by that manufacturer and some by another vehicle manufacturer.

SEC. 5. INFORMATION AND REPORTS.

(a) VEHICLE MANUFACTURERS RECORDS AND INFORMATION.—Each vehicle manufacturer that produces more than one hundred thousand motor vehicles for sale in the United States during any model year after model year 1983 must establish and maintain such records, and provide such information, regarding the production and sale of automotive products by it as the Secretary by rule shall require for purposes of carrying out section 4(a) and the enforcement provisions of section 6.

(b) AUTHORITY TO OBTAIN INFORMATION.—(1) The authority granted to the Secretary under subsection (b)(1) of section 505 of the Motor Vehicle Information and Cost Saving Act (as in effect on the date of the enactment of this Act) to obtain information and data, and access thereto, that is deemed advisable by him for purposes of carrying out part V of that Act may be used by the Secretary for purposes of obtaining the information and data, and access thereto, that is necessary or appropriate to carry out section 4(a) and section 6.

(2) The authority granted to the district courts of the United States under subsection (b)(2) of such section 505 to enforce compliance with action taken by the Secretary under

subsection (b)(1) of such section may be used by such courts to enforce actions taken by the Secretary pursuant to paragraph (1) for purposes of carrying out this Act.

(3) The Secretary shall disclose any information and data obtained under this subsection and subsection (a) to the public only in accordance with section 552 of title 5, United States Code; and any matter described in subsection (b)(4) of such section shall not be disclosed to the public, except that where such matter may be relevant to any administrative or judicial proceeding to enforce this Act, such matter may be disclosed in such proceeding only in a manner which would not result in competitive damage or disadvantage, as determined by the Secretary or a court, because of such disclosure.

(c) ANNUAL REPORTS.—As soon as practicable after the close of each model year after January 1, 1984, the Secretary shall prepare and make available to the public a report setting forth the domestic content ratio achieved by each vehicle manufacturer during such model year.

SEC. 6. ENFORCEMENT.

(a) PENALTY FOR FAILURE TO MEET DOMESTIC CONTENT RATIOS.—(1) In furtherance of the purpose of this Act, it is unlawful for a vehicle manufacturer to fail to meet for any model year the applicable minimum domestic content ratio required under section 4(a).

(2) If the Secretary finds, after notice and an opportunity for a hearing in accordance with section 554 of title 5, United States Code, that a vehicle manufacturer has violated paragraph (1), the Secretary shall issue an order prohibiting the vehicle manufacturer from entering, or having entered on its behalf, during the twelve-month period beginning on the date on which the finding becomes final—

(A) a quantity of motor vehicles that exceeds the total quantity of motor vehicles that was entered by, or on behalf of, that manufacturer during the model year in which such violation occurred reduced by the number of motor vehicles that bears to such total quantity the same percentage by which the vehicle manufacturer failed to meet the domestic content ratio for that model year; and

(B) parts for motor vehicles in an aggregate value (as appraised for purposes of the customs laws) that exceeds the total aggregate appraised value of parts for motor vehicles that were entered by, or on behalf of, that manufacturer during the model year in which such violation occurred reduced by parts of an aggregate value that bears to such total aggregate value the same percentage by which the vehicle manufacturer failed to meet the domestic content ratio for that model year.

(3) An order issued pursuant to paragraph (2) shall specify the total number of motor vehicles and the aggregate appraised value of parts for motor vehicles that may be entered during the applicable twelve-month period by, or on behalf of, the vehicle manufacturer.

(4) Any person against whom an order is issued under paragraph (2) may, within sixty calendar days after the date of the order, institute an action in the United States court of appeals for the appropriate judicial circuit for judicial review of such order in accordance with chapter 7 of title 5, United States Code. The court shall have jurisdiction to enter a judgment affirming, modifying, or setting aside in whole or in part, the order of the Secretary, or the court may remand the proceeding to the Secretary for such further action as the court may direct.

(b) OTHER VIOLATIONS.—Any person who knowingly violates any provision of this Act (other than failure to meet the applicable domestic content ratio for any model year) or any rule or regulation issued under this Act shall be liable, after notice and opportunity for a hearing, to the United States for a civil penalty of not more than $10,000. Each day of a continuing violation under this subsection shall constitute a separate offense.

(2)(A) Before issuing an order assessing a civil penalty against any person for violation of paragraph (1), the Secre-

tary shall provide to such person written notice of the proposed penalty.

(B) The Secretary shall promptly assess such penalty, by order, after the date of the receipt of the notice under subparagraph (A) of the proposed penalty.

(C) If the penalty has not been paid within sixty calendar days after the assessment order has been made under subparagraph (B), the Secretary shall institute an action in the appropriate district court of the United States for an order affirming the assessment of the civil penalty. The court shall have authority to review de novo the law and the facts involved, and shall have jurisdiction to enter a judgment enforcing, modifying, and enforcing as so modified, or setting aside in whole or in part, such assessment.

(D) If any person fails to pay an assessment of a civil penalty after the appropriate district court has entered final judgment in favor of the Secretary under subparagraph (C), the Secretary shall institute an action to recover the amount of such penalty in any appropriate district court of the United States. In such action, the validity and appropriateness of such final assessment order or judgment shall not be subject to review.

(3) The Secretary may compromise, modify, or remit, with or without conditions, any penalty that is subject to imposition or that has been imposed under this subsection.

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SEC. 7. STUDY OF DISCRIMINATORY PRACTICES AFFECTING DOMESTIC PRODUCTION OF MOTOR VEHICLE PARTS.

Within one year after the date of the enactment of this Act, the Secretary and the Federal Trade Commission shall jointly undertake an investigation, and submit to Congress a written report, regarding those policies and practices of vehicle manufacturers that are used to persuade United States motor vehicle dealers, in choosing replacement parts for motor vehicles, to favor foreign-made parts rather than domestically produced parts. Such report shall include, but not be limited to, recommended administrative or legislative action that the Secretary and the Federal Trade Commission consider appropriate to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

Mr. RUSSO. Good morning, ladies and gentlemen. This is a Ways and Means Trade Subcommittee meeting on H.R. 1234, the Fair Practices in Automotive Products Act, the so-called domestic content bill.

This bill has been jointly referred to both the Energy and Commerce Committee and the Ways and Means Committee. The Energy and Commerce Committee favorably reported a substitute version of H.R. 1234 on June 30, 1983; the Committee on Ways and Means has jurisdiction over local content until September 26, 1983, and we intend to take action on this bill swiftly and thoroughly.

Witnesses should focus on new information not heretofore given to our committee.

We are pleased to have as our leadoff witness Ambassador Bill Brock, U.S. Trade Representative, and the Honorable Robert Dederick, Under Secretary for Economic Affairs, and the Honorable

Michael Driggs, Deputy Assistant Secretary for Automotive Industry Affairs.

Ambassador.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Thank you, Mr. Chairman. Good morning.

It has been almost a year to the day since I testified before this subcommittee on automotive domestic content legislation, and in that testimony last September I stressed that the predecessor bill to the bill before you today did not solve the real problems confronting the U.S. automotive industry such as worldwide recession, tight credit, and higher automobile prices and operating expenses relative to personal income.

We also stated that the benefits to the automotive industry and its workers of domestic content requirements were small at best, while the potential costs to U.S. exports and jobs in other sectors were large.

The Congressional Budget Office's study was specifically cited, which concluded that the mild stimulus to jobs in the automotive sector from domestic content requirements would be more than offset by reductions in the United States and world employment and output.

In addition, I tried to make it absolutely clear that the legislation offered last year was inconsistent with our GATT obligations and would be viewed by our trading partners as a renunciation of the reciprocal trade liberalization policy that our Government has followed for the last 35 years.

Much has changed in the condition of the U.S. automotive industry over the last year: Car sales, which in 1982 had been the worst in 21 years, were up 15 percent through August 1983 over last year's comparable period, and car sales in the last 3 summer months were up 29 percent over 1982. We expect 9 million cars to be sold in the United States if adequate inventories can be maintained.

As a consequence of those sales, employment has risen by over 100,000 workers over the lowest levels of 1982. The unemployment rate in the automotive industry, which in 1982 had been twice the national rate, averaging 23 percent, has dropped to 9.5 percent in August.

Auto company profits which had been $322 million in 1982 and came primarily from nonmanufacturing operations, are expected to run about $4 billion for 1983. And workers who were involved in wage give-backs are now getting wage boosts.

Against this backdrop of renewed strength in the industry and growing consumer confidence, the administration's opposition to domestic content legislation makes even more sense this year. This bill would still raise the price of every car, cost jobs, and unravel the international trading system—perhaps eventually leading us again into a trade war.

Let me take a few moments to discuss the international trade consequences of this proposed legislation. H.R. 1234, as introduced, would flatly violate articles III and XI of the GATT, which, respec-

tively, prohibit local content requirements and quantitative restrictions. The bill would also be inconsistent with similar provisions contained in commercial treaties between the United States and most of its major trading partners.

A year ago, when I testified before you, I stated that we were going to use GATT dispute settlement procedures to help check the use of local purchasing and content requirements by other countries. I specifically cited the domestic sourcing requirements of the Canadian Foreign Investment Review Agency [FIRA]. We have, as you know, successfully challenged the FIRA practices and a GATT panel has found these practices inconsistent with article III of the GATT. Certainly, that decision only reinforces my view that this bill violates article III.

In the Energy and Commerce Committee report on H.R. 1234, the majority asserted that their bill is consistent with the GATT because this new version will fall within the escape clause of article XIX of the GATT. I cannot agree, and I do not believe any other countries will agree—unless they cynically want to follow our example to protect their own markets from imports of various products rather than deal with the problem.

The only relevant change in this bill for GATT purposes is that the committee has added a recital of parts of article XIX to its findings in the bill. In GATT, it is not enough just to recite the terms of article XIX. We have to be able to show that increased imports of each of the many products affected by the bill cause or threaten serious injury to the domestic producers.

No one questions that our auto industry, despite recent hopeful signs, still is recovering. However, it has not been demonstrated that increased imports are the substantial cause of serious injury for our producers of automobiles, automotive parts, and light and medium weight trucks.

Then there is the problem of the relief proposed in the bill. The GATT says we can provide relief "to the extent and for such time necessary to prevent or remedy such injury." That is to say, the trade restriction cannot be more severe and cannot last longer than the injury. We believe that means a temporary measure, and one which should be made progressively less restrictive.

What this bill proposes is to phase in progressively more domestic protection without any limit on how long the protection will run. I know of no precedent for creating a severe local content requirement as escape clause relief.

This bill, in my view, is not temporary relief gaged to remedying serious injury, but rather is a permanent and severe piece of overt protectionism.

The bill also would nullify the established procedures legislated and refined by many previous Congresses for permitting industries and workers to petition for import relief through a factfinding procedure administered by an independent commission. In my view, this would be a clear signal for troubled industries to bring their individual cases for import relief directly to Congress.

Let me approach this issue from another direction. Even if one were to ignore the facts and take the hypothetical proposition that H.R. 1234 could be made consistent with our GATT obligations, the consequences would be as severe. If the United States were to

invoke article XIX, that article expressly authorizes affected contracting parties to withdraw substantially equivalent concessions or other obligations in response.

This would still endanger thousands of U.S. jobs because article XIX contains its own provisions for retaliation. Supporters of the bill should understand that attempts to make the bill GATT-legal do not make it free from legal retaliation under the GATT.

Likewise, emulation of this action in other product areas of export interest to the United States could be just as devastating to U.S. trade and U.S. jobs. Do we really want to set the precedent for foreign governments to take similar action, for example, on soybeans or computers and all the rest of our exports?

In conclusion, exports and trade mean jobs. Enactment of domestic content legislation would be inimical to the U.S. and world economic health and employment. Coming on the heels of the Williamsburg summit, where leaders of the industrialized world committed to dismantle trade barriers, such an action would severely undermine our positive influence on trade liberalization.

Domestic content legislation would violate the GATT and is not the answer to cyclical or structural employment problems. It would force rigidities upon the U.S. auto industry, making the industry less efficient and unable to compete in an open market.

This bill would cost us jobs, sales, markets, and real economic growth. This administration opposes domestic content requirements in the strongest possible terms.

Mr. RUSSO. Thank you very much, Mr. Ambassador.

[An attachment to the prepared statement follows:]

DATA APPENDIX

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Table I

U.S. MERCHANDISE TRADE BALANCES
(in billions of $US)

	1982	1983*	Jan-Jul 1982	Jan-Jul 1983
Balance	-31.8	-46.4	-12.7	-27.1
Exports	212.2	198.4	128.7	115.7
Imports	244.0	244.8	141.4	142.8

Table II

CHANGES IN U.S. TRADE BALANCES
(in billions of $US)

	1981	1982	1983*
All Merchandise	-27.6	-31.8	-46.4
Manufactures	+11.8	- 4.3	-23.8
Agriculture	+26.8	+21.6	+18.5

* Yearly totals for 1982 are actual, for 1983 they are annualized from 7 months.

Source: US Department of Commerce, Bureau of the Census

Table III

U.S. MERCHANDISE TRADE BALANCE - QUARTERLY AND MONTHLY
(in billions of $US; f.a.s.; seasonally adjusted)

Quarterly						Most Recent Quarter by Month	
1981		1982		1983			
I	-5.6	I	-6.5	I	-8.1	Apr 83	-3.7
II	-7.1	II	-4.4	II	-13.7	May 83	-5.9
III	-6.8	III	-10.5	III		Jun 83	-4.0
IV	-8.1	IV	-10.2	IV		Jul 83	-5.3

Table IV

U.S. MERCHANDISE TRADE - SELECTED PRODUCT AREAS
(in billions of $US; f.a.s.; seasonally adjusted)

	Jan-Jul 1982	Jan-Jul 1983	Percent Change 1983/1982
Imports:			
Total	141.4	142.8	+ 1
Petroleum	34.5	28.3	-18
Non-petroleum	106.9	114.5	+ 7
of which, Manufactures	84.3	90.5	+ 7
Exports:			
Total	128.7	115.7	-10
Agriculture	23.2	20.8	-10
Manufactures	84.6	76.6	- 9
Other (e.g., Crude Materials	20.9	18.3	-13

Source: US Department of Commerce, Bureau of the Census

Table V

U.S. REGIONAL MERCHANDISE TRADE AND BALANCES
(in billions of $US; f.a.s.)

	Jan-Jul 1983			Trade Balance	
	Exp	Imp	Bal	1983 (annualized from 7 mnths)	1982 (actual)
World*	115.7	142.8	-27.1	-46.4	-31.8
DCs	70.8	86.0	-15.2	-26.1	-19.1
W. Europe	33.5	30.9	2.6	4.5	8.8
EC	26.5	25.0	1.5	2.6	5.4
Japan	12.0	22.7	-10.7	-18.3	-15.9
Canada	21.5	29.8	- 8.3	-14.2	-12.8
Australia	2.3	1.2	1.1	1.9	2.2
LDCs	42.8	55.2	-12.4	-21.3	-16.3
OPEC	10.5	12.7	- 2.2	- 3.8	- 8.3
Non-OPEC	32.3	42.5	-10.2	-17.5	- 8.0

*World totals exclude military grant aid exports and are seasonally adjusted; area and country totals include military grant aid exports and are not seasonally adjusted.

Source: US Department of Commerce, Bureau of the Census

Table VI

U.S. CURRENT ACCOUNT SINCE 1976
Major Components
(in millions of $US)

	Merchandise Trade Balance	Total Net Investment Income	Foreign Direct Investment Income	Other Services Trade Balance	Other*	Current Account Balance
1976	- 9,483	15,975	15,889	2,153	-4,439	4,207
1977	-31,091	17,962	16,839	1,707	-3,089	-14,511
1978	-33,966	20,565	21,247	2,440	-4,485	-15,446
1979	-27,555	31,218	31,973	2,800	-7,427	- 964
1980	-25,554	29,570	27,680	5,738	-9,342	421
1981	-28,067	33,483	24,065	7,462	-8,286	4,592
1982	-36,389	27,304	18,055	5,727	-7,855	-11,211

*Includes U.S. military agency sales, direct defense expenditures, and unilateral transfers such as foreign aid, U.S. Government pensions and other official and private transfers and remittances.

Table VII

CURRENT ACCOUNT BALANCE: SELECTED COUNTRIES
(in billions of $US)

1976	+ 4.2	- 5.9	+ 3.9	- 1.6	+ 3.7	- 3.9
1977	-14.5	- 3.0	+ 4.1	- 0.1	+10.9	- 4.0
1978	-15.5	+ 3.8	+ 9.0	+ 1.8	+16.5	- 4.3
1979	- 1.0	+ 1.2	- 6.2	- 3.7	- 8.8	- 4.2
1980	+ 0.4	- 7.8	-16.5	+ 7.4	-10.7	- 1.7
1981	+ 4.6	- 5.5	- 6.8	NA	+ 4.8	- 4.4
1982	-11.2	-12.0	+ 3.2	+ 6.8	+ 6.9	+ 2.4

Note: U.S. data is seasonally adjusted

Source: International Monetary Fund

Table VIII

VALUE OF TRADE IN NEW PASSENGER AUTOMOBILES
(in millions of $US)

Year	U.S. Imports from the World*	U.S. Imports from Japan	U.S. Exports to the World*	Trade Balance
1970	1.373	.456	.114	-1.259
1971	2.737	.929	.124	-2.613
1972	3.111	1.138	.122	-2.989
1973	3.716	1.244	.215	-3.501
1974	4.454	1.686	.347	-4.107
1975	4.198	1.742	.427	-3.771
1976	5.327	2.855	.566	-4.761
1977	6.791	3.860	.637	-6.154
1978	9.584	5.771	.956	-8.628
1979	10.982	6.471	1.323	-9.659
1980	13.257	8.229	.884	-12.373
1981	13.671	9.491	.765	-12.906
1982	14.610	9.627	.517	-14.093
1982 Jan-June	7.593	4.839	.273	-7.320
1983 Jan-June	8.335	5.419	.158	-8.277

* Except Canada

Source: US International Trade Commission

Table IX

U.S. RETAIL NEW CAR SALES
(In Thousands of Units)

Year	Domestic 1/	Imported 2/	Imports from Japan	Total
1968	8,418	960	113	9,378
1969	8,385	1,044	191	9,429
1970	7,157	1,261	313	8,418
1971	8,263	1,541	552	9,804
1972	8,958	1,592	615	10,550
1973	9,631	1,753	742	11,385
1974	7,332	1,409	597	8,741
1975	7,050	1,580	817	8,630
1976	8,607	1,499	938	10,106
1977	9,104	2,069	1,388	11,174
1978	9,308	1,976	1,337	11,284
1979	8,225	2,304	1,749	10,530
1980	6,578	2,363	1,882	8,941
1981	6,206	2,327	1,859	8,533
1982	5,757	2,223	1,798	7,980
1983 Jan-Aug	4,442	1,638	1,289	6,080
1982 Jan-Aug	3,775	1,497	1,207	5,272
1983 3/	6,793	2,432	1,900	9,225

Source: Ward's Automotive Reports

1/ Domestic automobile sales include U.S. and Canadian built automobiles sold in the United States.
2/ Does not include automobiles imported from Canada.
3/ Unofficial projection by USITC/Machinery and Equipment Div.

Table X

VALUE OF TRADE IN MOTOR VEHICLE PARTS
(in millions of $US)

Year	U.S. Imports from the World*	U.S. Imports from Japan	U.S. Exports to the World*	Trade Balance
1970	.571	.164	.952	+.381
1971	.750	.213	.942	+.192
1972	1.134	.408	1.015	-.199
1973	1.601	.579	1.246	-.355
1974	2.157	.886	1.809	-.349
1975	1.857	.741	2.322	+.465
1976	2.801	1.343	2.497	-.305
1977	3.473	1.584	2.543	-.929
1978	4.981	2.527	2.664	-2.317
1979	5.754	2.717	3.376	-2.378
1980	5.650	2.829	4.177	-1.473
1981	4.550	1.821	5.051	+.501
1982	4.586	1.822	4.252	-.334
1982 Jan-June	2.300	.988	2.392	+.092
1983 Jan-June	2.731	.979	1.634	-1.097

* Except Canada

Source: US International Trade Commission

Table XI

VALUE OF TRADE IN AUTOMOBILE TRUCKS 1/
(in millions of $US)

Year	U.S. Imports from the World*	U.S. Imports from Japan	U.S. Exports to the World*	Trade Balance
1970	2.853	.116	172.633	169.780
1971	28.943	26.432	163.575	134.632
1972	117.448	116.594	158.757	41.309
1973	60.863	59.147	202.675	141.812
1974	40.993	40.466	298.533	257.540
1975	5.385	5.160	924.255	918.870
1976	1.093	.894	715.560	714.467
1977	1.048	.955	691.876	690.828
1978	1.689	1.387	953.356	951.667
1979	25.515	25.341	1,000.503	974.988
1980	375.781	375.658	1,179.847	804.066
1981	1,814.246	1,809.481	1,279.317	-534.929
1982	1,475.684	1,472.993	1,041.008	-434.676
1982 Jan-June	880.671	879.694	585.045	-295.626
1983 Jan-June	800.478	795.088	322.333	-478.145

* Except Canada

1/ Data includes lightweight cab/chassis which were reclassified as unfinished trucks (692.02) during 1980 by the U.S. Customs Service.

Source: US International Trade Commission

Table XII

U.S. EMPLOYMENT

ANNUAL AVERAGE FOR THE
MOTOR VEHICLES AND EQUIPMENT INDUSTRY
(In Thousands)

	Employment
1972	874.8
1973	976.5
1974	907.7
1975	792.4
1976	881.0
1977	947.3
1978	1004.9
1979	990.4
1980	788.8
1981	783.9
1982	704.8

U.S. EMPLOYMENT

MONTHLY FIGURES FOR 1982 AND YEAR-TO-DATE 1983
FOR THE MOTOR VEHICLES AND EQUIPMENT INDUSTRY
(In Thousands)

1982	Jan	701.7
	Feb	702.7
	Mar	729.7
	Apr	709.1
	May	732.7
	Jun	724.9
	Jul	721.5
	Aug	678.6
	Sep	724.2
	Oct	687.9
	Nov	659.6
	Dec	684.4
1983	Jan	682.9
	Feb	711.7
	Mar	724.6
	Apr	741.1
	May	760.1
	Jun	768.5
	Jul	770.1

Source: Bureau of Labor Statistics

Table XIII

U.S. EMPLOYMENT

ANNUAL AVERAGE FOR
ALL MANUFACTURING INDUSTRIES
(In Millions)

	Employment
1972	19.15
1973	20.15
1974	20.08
1975	18.32
1976	19.00
1977	19.68
1978	20.50
1979	21.04
1980	20.29
1981	20.17
1982	18.85

U.S. EMPLOYMENT

MONTHLY FIGURES FOR 1982 AND YEAR-TO-DATE 1983
FOR ALL MANUFACTURING INDUSTRIES
(In Millions)

1982	Jan	19.34
	Feb	19.29
	Mar	19.21
	Apr	19.08
	May	19.05
	Jun	19.04
	Jul	18.70
	Aug	18.75
	Sep	18.81
	Oct	18.50
	Nov	18.30
	Dec	18.16
1983	Jan	18.05
	Feb	18.08
	Mar	18.17
	Apr	18.30
	May	18.47
	Jun	18.71
	Jul	18.74
	Aug	18.77

Source: Bureau of Labor Statistics

Table XIV

UNITED STATES UNEMPLOYMENT
Seasonally Adjusted
(Percent)

	All Civilian	Manufacturing	Auto Manufacturing
1972	5.6	5.6	4.4
1973	4.9	4.3	2.4
1974	5.6	5.7	9.3
1975	8.5	10.9	16.0
1976	7.7	7.9	6.0
1977	7.0	6.7	3.9
1978	6.0	5.5	4.1
1979	5.8	5.5	7.5
1980	7.1	8.5	20.3
1981	7.6	8.3	14.6
1982	10.8	14.8	23.0
1983 Jan	10.4	13.0	16.3
Feb	10.4	13.3	17.5
Mar	10.3	12.8	15.3
Apr	10.2	12.4	15.4
May	10.1	12.3	14.3
Jun	10.0	11.5	13.3
Jul	9.5	10.5	9.1
Aug	9.5	11.2	9.5

UNITED STATES UNEMPLOYMENT
MONTHLY RATES FOR 1982 AND YEAR-TO-DATE 1983
FOR THE AUTO MANUFACTURING INDUSTRY
(Percent)

1982	Jan	23.0	1983	Jan	16.3
	Feb	19.8		Feb	17.5
	Mar	17.2		Mar	15.3
	Apr	18.8		Apr	15.4
	May	17.9		May	14.3
	Jun	17.6		Jun	13.3
	Jul	16.8		Jul	9.1
	Aug	20.8		Aug	9.5
	Sep	19.5			
	Oct	22.5			
	Nov	24.9			
	Dec	23.0			

Source: Bureau of Labor Statistics

Table XV

U.S.-Canadian Automotive Products Trade
(Millions of U.S. $)

	U.S. Exports	U.S. Imports
New Passenger Automobiles		
1970	625	1,806
71	946	2,397
72	1,076	2,593
73	1,412	2,763
74	1,769	3,090
75	2,198	3,286
76	2,443	4,072
77	2,761	4,285
78	2,618	4,488
79	3,288	3,870
80	3,035	3,798
81	3,154	4,268
82	2,343	5,787
Automobile Trucks, valued at $1000 or more		
1970	211	315
71	265	425
72	379	436
73	470	387
74	739	549
75	713	561
76	718	790
77	760	1,196
78	775	1,968
79	866	1,489
80	528	1,331
81	555	1,896
82	433	2,573
Motor Vehicle Parts		
1970	1,644	1,331
71	2,019	1,692
72	2,456	2,146
73	2,816	2,450
74	3,332	2,552
75	3,711	2,600
76	4,429	3,976
77	4,939	4,514
78	5,539	4,504
79	5,590	4,341
80	4,965	3,426
81	6,194	3,896
82	6,383	4,525

Source: US International Trade Commission

Table XVI

U.S.-Canadian Automotive Products Trade
(Millions of U.S. $)

Year	Total U.S. Exports	Total U.S. Imports	Total Trade Balance
1966	1,324	929	+395
67	1,798	1,619	+179
68	2,425	2,633	-209
69	2,802	3,509	-707
70	2,514	3,608	-1,095
71	3,275	4,650	-1,375
72	3,979	5,302	-1,322
73	4,763	5,993	-1,230
74	5,930	6,260	-329
75	6,748	6,511	+237
76	7,702	8,926	-1,227
77	8,556	10,074	-1,517
78	9,081	11,132	-2,051
79	9,938	9,998	-59
80	8,696	8,802	-106
81	8,417	10,477	-2,061
82	9,251	13,264	-4,013

Source: US International Trade Commission

Mr. RUSSO. Mr. Dederick?

STATEMENT OF HON. ROBERT G. DEDERICK, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF COMMERCE, ACCOMPANIED BY MICHAEL DRIGGS, DEPUTY ASSISTANT SECRETARY FOR AUTOMOTIVE INDUSTRY AFFAIRS

Mr. DEDERICK. Mr. Chairman, I appreciate the opportunity to testify today.

I am accompanied by Michael Driggs, Deputy Assistant Secretary of Commerce for Automotive Industry Affairs. With your permission, I would like to submit my prepared testimony for the record and summarize it at this time.

Mr. RUSSO. That is fine.

[The prepared statement follows:]

STATEMENT OF ROBERT G. DEDERICK, UNDER SECRETARY FOR ECONOMIC AFFAIRS, U.S. DEPARTMENT OF COMMERCE

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO TESTIFY ON THE STATUS OF THE U.S. AUTOMOBILE INDUSTRY, LOCAL CONTENT LEGISLATION, AND TRADE POLICY ISSUES.

ONE YEAR AGO SECRETARY BALDRIGE APPEARED BEFORE THIS SUBCOMMITTEE TO EXPLAIN THE ADMINISTRATION'S OPPOSITION TO H.R. 5133, THE VERSION OF AUTOMOTIVE LOCAL CONTENT BEFORE YOU THEN. CONDITIONS IN THE U.S. AUTO INDUSTRY AND THE ECONOMY AS A WHOLE WERE STILL NOT HEALTHY, ALTHOUGH SOME SIGNS OF IMMINENT RECOVERY WERE APPARENT. THE SECRETARY EMPHASIZED THE FACT THAT LOCAL CONTENT LEGISLATION WOULD NOT HELP THE U.S AUTOMOBILE INDUSTRY. IT WOULD ONLY SERVE TO IMPEDE THE OVERALL ECONOMIC RECOVERY.

MUCH HAS CHANGED SINCE THEN. UNFORTUNATELY, THE SUBSTANCE OF THE BILL BEFORE YOU HAS NOT CHANGED. ACCORDINGLY, THE ADMINISTRATION IS JUST AS STRONGLY OPPOSED TO H.R. 1234 AS TO ITS PREDECESSOR. THE ADVERSE ECONOMIC AND TRADE EFFECTS ARE, IF ANYTHING, EVEN CLEARER.

BUT FIRST, THE GOOD NEWS. THE U.S. AUTO INDUSTRY HAS ALREADY BEEN A MAJOR BENEFICIARY OF THE ECONOMIC RECOVERY THAT IS NOW UNDERWAY. AS WE EMPHASIZED LAST YEAR, ECONOMIC RECOVERY PROVIDES THE MOST EFFECTIVE HELP TO THE INDUSTRY.

LAST YEAR THE INDUSTRY HAD TO COPE WITH A CONTINUED MARKET DECLINE, AND HIGH CAPITAL REQUIREMENTS FOR PRODUCING NEW, FUEL EFFICIENT MODELS AT LOWER COST. ALTHOUGH THE FULL EFFECTS ARE YET TO BE FELT, THE FAVORABLE IMPACTS OF BOTH THE INDUSTRY'S RECOVERY AND ITS RESTRUCTURING PROGRAMS ARE BECOMING VERY CLEAR.

SALES OF DOMESTICALLY-MADE CARS ARE UP SUBSTANTIALLY OVER LAST YEAR. THE CALENDAR YEAR TO DATE INCREASE HAS BEEN ABOUT 16 PERCENT. THE NEW MODELS THAT GM, FORD, CHRYSLER, AND AMC HAVE INTRODUCED HAVE LED THE WAY. FOR 1983 AS A WHOLE, WE NOW LOOK FOR TOTAL CAR SALES OF ABOUT 9.2 - 9.3 MILLION UNITS, UP FROM 8.0 MILLION IN 1982. VIRTUALLY THE ENTIRE IMPROVEMENT SHOULD BE IN DOMESTICS. MANUFACTURER AND DEALER INVENTORIES ARE EXTREMELY TIGHT, AT PRESENT, EVEN THOUGH U.S. CAR PRODUCTION WAS RUNNING 23 PERCENT HIGHER THAN IN 1982, AS OF THE BEGINNING OF SEPTEMBER.

WHEN SEPTEMBER BEGAN, THE NUMBER OF U.S. AUTO WORKERS ON INDEFINITE LAYOFF HAD FALLEN 125,000 FROM ITS PEAK OF LAST YEAR. AS PRODUCTION CONTINUES AT HIGH LEVELS AND, INDEED, MOVES HIGHER, WE EXPECT THAT MORE OF THE 137,750 WORKERS STILL ON LAYOFF WILL BE CALLED BACK. MEANWHILE, THE ADMINISTRATION AND CONGRESS ARE WORKING TOGETHER ON IDENTIFYING PROGRAMS TO RETRAIN UNEMPLOYED WORKERS, ESPECIALLY THOSE IN HARD HIT INDUSTRIES LIKE AUTOS, AND TO HELP THEM FIND NEW JOBS.

IN 1978, THE U.S. AUTO COMPANIES BUILT 12.6 MILLION CARS AND TRUCKS, AND HAD EARNINGS OF $ 4.8 BILLION. IN 1983, THE COMPANIES WILL MAKE ALMOST THAT MUCH PROFIT ON PRODUCTION OF ABOUT 9.1 MILLION UNITS. THIS IS CLEAR EVIDENCE OF THE SUCCESS OF THE U.S. AUTO INDUSTRY IN CUTTING COSTS, INCREASING PRODUCTIVITY, AND MARKETING HIGH-QUALITY VEHICLES.

THE INDUSTRY'S REBOUND HAS PRODUCED DIRECT FINANCIAL BENEFITS TO GOVERNMENT. CHRYSLER HAS BEEN ABLE TO REPAY $ 1.2 BILLION IN FEDERALLY-GUARANTEED LOANS SEVEN YEARS AHEAD OF SCHEDULE. MICHIGAN HAS SO INCREASED ITS STATE REVENUES THAT ITS BUDGET CRISIS OF LAST YEAR IS OVER, AND ITS MUNICIPAL BOND RATING HAS BEEN RAISED.

IN THE LAST YEAR, WE HAVE ALSO SEEN THE THREE MAJOR JAPANESE AUTO MANUFACTURERS MAKE COMMITMENTS TOTALING OVER $1.0 BILLION FOR PLANT FACILITIES IN THE UNITED STATES.

BY 1985, AS THE RECOVERY CONTINUES, TOTAL CAR AND TRUCK SALES WILL BE ABOUT 14.2 MILLION UNITS, A 37 PERCENT INCREASE OVER 1982.

IN SHORT, EVEN THOUGH COMPETITION IS STILL STIFF AND THE ECONOMIC HEALTH OF THE INDUSTRY STILL HAS ROOM FOR IMPROVEMENT, THE CRISIS IN THE U.S. AUTO INDUSTRY HAS PASSED. LOCAL CONTENT LEGISLATION WAS NEVER THE ANSWER TO THE PROBLEMS THAT THE AUTO INDUSTRY EXPERIENCED OVER THE PAST THREE YEARS. NOR CAN IT FURTHER THE INDUSTRY'S RECOVERY. IT IS UNNECESSARY, AND IT WILL DO GRAVE HARM.

LOCAL CONTENT IS BLATANTLY PROTECTIONIST. IT WILL TEMPORARILY INSULATE THE AUTO INDUSTRY FROM FOREIGN COMPETITION, WHILE PREVENTING IT FROM UTILIZING THE LOWEST COST SOURCES OF SUPPLIES. ACTIONS OF THIS SORT INEVITABLY BACKFIRE, AND THOUGH THEY MAY YIELD SOME SHORT-TERM, MINIMAL BENEFIT FOR ONE SECTOR OF THE ECONOMY, THEY ADVERSELY AFFECT THE ECONOMY AS A WHOLE.

H.R. 1234 AS REPORTED BY THE ENERGY AND COMMERCE COMMITTEE CONTAINS ESSENTIALLY THE SAME CONTENT REQUIREMENTS AS THE VERSION OF H.R. 5133 THAT WAS REFERRED TO THIS SUBCOMMITTEE LAST YEAR. THE WEAKENING AMENDMENTS ADDED ON THE HOUSE FLOOR LAST YEAR HAVE BEEN DROPPED. BUT TWO CONFUSING AND POTENTIALLY DANGEROUS AMENDMENTS WERE ADDED BY THE ENERGY AND COMMERCE COMMITTEE.

ONE AMENDMENT ATTEMPTS TO AVOID THE FACT THAT THE BILL BLATANTLY REPUDIATES OUR OBLIGATIONS UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE (THE GATT) BY DECLARING THAT AUTO IMPORTS HAVE CAUSED OR THREATENED INJURY TO THE DOMESTIC AUTO INDUSTRY. THIS DECLARATION IS UNSUPPORTABLE AND UNDERMINES THE INDEPENDENT AUTHORITY OF THE INTERNATIONAL TRADE COMMISSION, WHICH HAS FOUND EXPLICITLY THAT AUTO IMPORTS ARE NOT THE SUBSTANTIAL CAUSE OF INJURY TO THE U.S. INDUSTRY.

THE OTHER PROVISION DECLARES THAT THE LEGISLATION IS NOT INTENDED TO CONFER JURISDICTION ON ANY FEDERAL COURT TO HEAR CASES INVOLVING CONFLICTS BETWEEN U.S. TRADE OR TREATY OBLIGATIONS AND DOMESTIC CONTENT REQUIREMENTS. THIS LANGUAGE CAN ONLY CAUSE CONFUSION AND POSSIBLY PREJUDICE THE RIGHTS OF U.S. CITIZENS TO PROTECT THEIR INTERESTS UNDER THE GATT OR U.S. TREATIES.

THIS YEAR, AS BEFORE, THE SUPPORTERS OF LOCAL CONTENT CLAIM THAT THE BILL WILL SAVE OR CREATE HUNDREDS OF THOUSANDS OF AUTO INDUSTRY JOBS, BRING JAPANESE MANUFACTURING FACILITIES TO THE

UNITED STATES, AND MAKE OUR U.S. INDUSTRY MORE PRODUCTIVE. NOW THEY ALSO ARGUE THAT THESE TWO AMENDMENTS WILL ASSURE THAT NEITHER JAPAN NOR ANY OTHER U.S. TRADING PARTNER WILL BE JUSTIFIED IN TAKING PROTECTIONIST STEPS IN REACTION TO THE LEGISLATION.

EACH OF THESE CLAIMS IS UNFOUNDED.

AUTO SECTOR IMPACTS

THE PROMISE OF MASSIVE JOBS CREATION IS AN EMPTY ONE. AFTER ACCOUNTING FOR JOBS LOST ELSEWHERE IN THE ECONOMY, LOCAL CONTENT IS NOTHING MORE THAN A SHELL GAME. THE SUPPORTERS OF H.R. 1234 HAVE NOT PROVIDED US WITH A DETAILED ECONOMIC ANALYSIS OF THE BILL AS IT IS NOW WRITTEN. DURING HEARINGS LAST YEAR, THEY STATED THAT THE REVISED BILL THEN BEING CONSIDERED MADE IT EASIER FOR FOREIGN AUTO MANUFACTURERS TO COMPLY, BUT, NEVERTHELESS, THAT ITS OVERALL IMPACT WOULD BE SUBSTANTIALLY THE SAME AS THE ORIGINAL VERSION. SINCE NO ECONOMIC ANALYSIS WAS PUBLISHED TO SUBSTANTIATE THIS CLAIM, WE DID ONE OURSELVES.

OUR ANALYSIS, WHICH I HAVE ATTACHED TO THIS STATEMENT, SHOWS THAT ENACTMENT OF H.R. 1234 WILL, DURING THE FIRST YEAR OF FULL IMPLEMENTATION, INCREASE THE PRICE OF AN AVERAGE CAR BY

ABOUT $450. JAPANESE CAR SALES HERE WILL DECLINE BY ABOUT ONE MILLION UNITS. AMERICAN CAR MAKERS WILL NOT BE, HOWEVER, THE AUTOMATIC BENEFICIARIES OF THE LOST JAPANESE SALES. ON THE CONTRARY, THEIR VOLUME WILL RISE BY LESS THAN 200,000 UNITS, AS CONSUMERS REACT NEGATIVELY TO HIGHER PRICES AND A REDUCED SELECTION OF OFFERINGS. THE BILL WOULD RESULT IN A NET INCREASE OF ONLY 6,500 JOBS IN THE AUTO AND PARTS SECTOR, AFTER TAKING INTO ACCOUNT JOB LOSSES AT PORTS, DEALERSHIPS, AND U.S. FACILITIES OF JAPANESE AUTO COMPANIES. THE AGGREGATE COST TO THE CONSUMER THROUGH HIGHER PRICES WOULD BE $ 4.8 BILLION, OR ABOUT $ 740,000 PER NET NEW JOB. AND THIS IGNORES THE JOBS THAT WOULD BE LOST BECAUSE OF PROTECTIONIST MEASURES TAKEN ABROAD. IN EFFECT, THE AMERICAN CONSUMER WOULD BE FORCED, AT A HEAVY PRICE, TO SUBSIDIZE JOBS IN THE AUTO SECTOR.

THE ANALYSIS WAS BASED ON ASSUMPTIONS THAT WE BELIEVE ARE REASONABLE IN LIGHT OF THE EXTREME AND PERMANENT RESTRICTIONS THAT LOCAL CONTENT WOULD IMPOSE. TWO ASSUMPTIONS ARE OF SPECIAL IMPORTANCE:

1. JAPANESE AUTO COMPANIES WILL TRY TO ACHIEVE MAXIMUM U.S. CONTENT AT MINIMUM COST. THEY WILL, FOR EXAMPLE, PURCHASE U.S.-MADE PARTS TO INSTALL ON JAPANESE AUTOS IN U.S. PORTS. THIS COULD ALLOW MOST MANUFACTURERS TO BRING IN UP TO 400,000 CARS EACH WITHOUT ANY NEW INVESTMENT IN THE U.S.

2. JAPANESE MANUFACTURERS WILL CLOSE THEIR U.S. PRODUCTION FACILITIES. THE MANUFACTURERS HAVE TESTIFIED THAT THEY WILL BE UNABLE TO SUPPORT HIGHER COST U.S. OPERATIONS IN A RESTRICTED MARKET. THEIR TESTIMONY IS CONSISTENT WITH THE THEORY THAT A COMPANY ATTEMPTING TO SELL IN A PERMANENTLY RESTRAINED MARKET CAN ONLY BE EXPECTED TO DO SO FROM ITS MOST EFFICIENT PRODUCTION BASE. THE SMALL VOLUMES AND HIGHER PRODUCTION COST FOR U.S. OPERATIONS WOULD DISRUPT THE JAPANESE PRODUCTION SYSTEM AND WOULD BE UNECONOMIC.

MAJOR FOREIGN AUTO MANUFACTURERS WOULD BE HARD PUT TO JUSTIFY U.S. OPERATIONS IN THE FACE OF A LOCAL CONTENT LAW, BUT THEY HAVE FOUND U.S. INVESTMENTS ATTRACTIVE WITHOUT SUCH RESTRICTIONS. VOLKSWAGEN, HONDA, NISSAN, AND NOW TOYOTA (IN COOPERATION WITH GM) ARE ALL COMMITTED TO PRODUCE CARS IN THIS COUNTRY. WHY THREATEN THOSE COMMITMENTS, AND OTHERS THAT ARE POSSIBLE IN THE FUTURE, BY IMPOSING WHAT IS, IN EFFECT, A PERMANENT QUOTA ON FOREIGN-PRODUCED AUTOS?

U.S. MANUFACTURERS

RATHER THAN HELPING THE U.S. AUTO INDUSTRY, LOCAL CONTENT WOULD ULTIMATELY HURT IT. "LOCKING IN" U.S. MANUFACTURERS AT A 90 PERCENT LEVEL OF LOCAL CONTENT WILL PREVENT THEM FROM SEEKING THE LOWEST COST SOURCES OF SUPPLY. THUS, WHILE FOREIGN MANUFACTURERS WILL BE ACTING TO HOLD DOWN COSTS BY PURCHASING PARTS WHEREVER SUPPLIES ARE LEAST EXPENSIVE, U.S. COMPANIES WOULD BE HAMSTRUNG. THEIR COMPETITIVENESS WOULD STEADILY DETERIORATE.

IMPLEMENTATION

I WANT TO ADD TO THE LIST OF OBJECTIONS TO LOCAL CONTENT A MATTER THAT HAS BEEN RECENTLY DOCUMENTED IN DETAIL. QUITE SIMPLY, A LOCAL CONTENT LAW WOULD BE A LEGAL AND ADMINISTRATIVE NIGHTMARE. STEPS INVOLVED IN RULEMAKING, RESPONDING TO GATT OBJECTIONS, AND RULE ENFORCEMENT WOULD STRETCH OUT OVER A NUMBER OF YEARS AFTER THE BILL'S ENACTMENT. IN A STUDY THAT IT RECENTLY COMPLETED, THE DEPARTMENT OF TRANSPORTATION ESTIMATED THAT ITS ENFORCEMENT BUREAUCRACY WOULD EMPLOY ABOUT 120 PERMANENT WORKERS AND COST OVER $10 MILLION A YEAR. THIS KIND OF EFFORT AND EXPENSE CANNOT BE JUSTIFIED BY ANY REASONABLE EXPECTATION OF BENEFITS.

THE DEPARTMENT OF COMMERCE HAS PREPARED A FLOW CHART, WHICH I HAVE ATTACHED TO MY STATEMENT, THAT DESCRIBES GRAPHICALLY HOW COMPLEX AND TIME CONSUMING THIS IMPLEMENTATION PROCESS WOULD BE.

RESPONSE OF OTHER COUNTRIES

IT IS A FALLACY TO ARGUE THAT LOCAL CONTENT WILL STRENGTHEN U.S. TRADE POLICY, "SEND A MESSAGE TO THE JAPANESE," OR BE THE "TEASPOON FULL OF PROTECTIONISM" THAT WILL MAKE FREE TRADE GO DOWN EASIER IN OTHER COUNTRIES.

LOCAL CONTENT WOULD BE A MAJOR SETBACK FOR U.S. TRADE POLICY. SINCE THE END OF WORLD WAR II, EVERY ADMINISTRATION AND EVERY CONGRESS, IN A BIPARTISAN EFFORT, HAS PURSUED THE GOAL OF FREE AND FAIR TRADE. IF H.R. 1234 BECOMES LAW, THE JAPANESE AND OUR OTHER TRADING PARTNERS WILL HAVE NO REASON TO TAKE SERIOUSLY OUR CALLS TO REMOVE TRADE BARRIERS. AMERICA WILL HAVE REPUDIATED ITS TRADITIONAL LEADERSHIP ON FREE AND FAIR TRADE BY ERECTING PROTECTIONIST BARRIERS TO AUTOS.

THE DAMAGE THAT LOCAL CONTENT WOULD DO TO OUR TRADE POLICY IS MATCHED BY ITS THREAT TO U.S. EXPORTS. DESPITE ATTEMPTS TO DECLARE OTHERWISE, IT WILL VIOLATE THE LETTER AND SPIRIT OF THE

GATT. IF THE UNITED STATES IS DEEMED TO HAVE VIOLATED THE GATT, AS THIS BILL CERTAINLY WOULD DO, WE WILL BE REQUIRED TO REDUCE TARIFFS ON AN AMOUNT OF JAPANESE GOODS EQUAL TO THE COST OF THE VIOLATION. IF WE FAIL TO REDUCE TARIFFS, JAPAN WILL HAVE THE GATT-LEGAL RIGHT TO TAKE RETALIATORY MEASURES TO KEEP OUT THE SAME DOLLAR VOLUME OF U.S. GOODS. PERHAPS EVEN MORE IMPORTANTLY, ENACTMENT OF LOCAL CONTENT WOULD ERODE THE POLITICAL WILL OF OTHER COUNTRIES TO FACE DOWN THEIR OWN INTERNAL PROTECTIONIST PRESSURES. THEY WOULD BE UNABLE TO RESIST. THUS, OUR PROTECTIONIST STEP WOULD INVITE MORE OF THE SAME BY OTHER NATIONS.

HOW FAR OTHER COUNTRIES WOULD GO IS UNCERTAIN, BUT ENACTMENT OF THIS LEGISLATION WILL INEVITABLY PUT AN ADDITIONAL, SEVERE STRAIN ON OUR TRADING RELATIONSHIPS.

TO SUM UP, I WANT TO STRESS THE FOLLOWING POINTS:

1. THE U.S. AUTO INDUSTRY IS PLAYING AN IMPORTANT PART IN OUR ECONOMIC RECOVERY. THOUGH THE INDUSTRY'S PROGRAM FOR INCREASED PRODUCTIVITY AND COMPETITIVENESS IS STILL NOT FULLY IMPLEMENTED, THE RESULTS ARE ALREADY BEING SEEN IN LOWER COSTS, HIGHER QUALITY, AND IMPROVED SALES.

2. LOCAL CONTENT IS NOT JOBS CREATION LEGISLATION. IT COULD, IN FACT, BECOME A JOBS DESTRUCTION BILL. IT MERELY RESHUFFLES THE EMPLOYMENT DECK ACROSS THE WHOLE ECONOMY AND THREATENS IN THE PROCESS TO DEAL US ALL FEWER CARDS.

3. THIS BILL IS NOT THE WAY TO "SEND A MESSAGE TO THE JAPANESE" OR TO ANYBODY ELSE. WE DO THAT BY CONTINUING TO PRESS HARD FOR TRADE LIBERALIZATION, NOT BY ENCOURAGING PROTECTIONIST MOVES BY OTHER COUNTRIES.

SO, WHILE MOST OF THE PROBLEMS THAT DOMESTIC CONTENT WAS SUPPOSED TO REMEDY ARE BEING SOLVED, ANOTHER PROBLEM, THE LEGISLATION ITSELF, REMAINS UNCHANGED. THIS IS WHY WE ARE SO STRONGLY OPPOSED TO H.R. 1234. THIS YEAR YOU WILL HAVE A VOTE. IF THAT VOTE IS BASED ON ALL THE FACTS, WE ARE CONFIDENT THAT THE BILL WILL BE DEFEATED.

MR. CHAIRMAN, I WILL BE HAPPY TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MIGHT HAVE.

ECONOMIC IMPLICATIONS OF AUTOMOBILE DOMESTIC CONTENT

Introduction

This paper projects the economic implications of the current domestic content bill based on what its supporters claim will be required of U.S. and Japanese manufacturers. Last September, the House Committee on Energy and Commerce reported a significantly amended version of the automobile domestic content bill (originally introduced in December 1981). In December the bill passed the House with weakening amendments. That new bill, without the amendments, was reintroduced in Congress as H.R. 1234 on February 3. (The same bill was introduced in the Senate as S.707 on March 8.)

The proponents of H.R. 1234 have never released a detailed analysis of it. During Congressional hearings, proponents claimed that the impact of the new bill would not be substantially different from the original version's effect. Yet, last year, Rep. Ottinger said that excluding the Big Three U.S. manufacturers, the revised version "...reduces the percentages ... to ratios more readily within their grasp - i.e., makes it easier for them to comply." It is unclear how a reduced content percentage, which would exclude fewer imports, could have the same impact. The lack of a revised analysis clearly leaves the question open. Accordingly, our analysis is based on Mr. Ottinger's specific discussion of the changes in the bill and their effects. Where possible, this exercise uses the economic assumptions made by the proponents of the bill.

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In brief, this analysis indicates that enactment of H.R. 1234 will, during the first year of full implementation, increase the price of the average car by 4.5 percent. Net direct and indirect auto-related employment will increase by only 6,500 persons at a cost of about $740,000 per job.

Methodology of the Analysis

An econometric simulation model was used to examine the effects of H.R. 1234 on U.S. automobile producers and the U.S. economy. The model was developed by an interagency task force. It is maintained by the Council of Economic Advisers and has been extensively tested over the last three years.

The model simulates consumer choice among five different, yet competing market segments--Japanese Basic and Luxury cars and U.S. Basic, Luxury, and Traditional Models. (European cars are treated as parts of the U.S. Basic and Luxury components). The model reflects the extent to which these segments compete with one another and the likely shifts consumers will make when the supply of models in one or more of the segments is restricted. For example, if the supply of Japanese subcompact cars is restricted, the consumer faces five choices: purchase a car in one of the other four market segments or not purchase a new car at all. The model simulates the degree to which the consumer will make one of these choices during the first year of full restraint. The model was used to calculate sales levels and employment effects based on specific assumptions about how manufacturers would react to enactment of H.R. 1234.

The model simulated conditions in the U.S. auto industry and the economy during 1987--the earliest year in which H.R. 1234 could become fully effective. A 15 million unit car and truck market and a 25 percent Japanese share of this market were assumed in the absence of domestic content legislation. The Japanese share is higher than the approximately 21 percent of 1982, but it is lower than the 35 percent assumed by the proponents in their analysis of the original version of the bill. (Available information on Japanese production capacity makes the 35 percent estimate appear unrealistic.) The 25 percent share was derived from manufacturers' product plans, consumer research surveys, and trend analyses.

Any producer subject to this bill would structure its U.S. operations to achieve the maximum U.S. content at the minimum cost. Today, with no extra substantive measures, Japanese auto manufacturers could achieve a 25 percent U.S. content level (as defined by H.R. 1234). Other actions that would not significantly disrupt the Japanese manufacturing and distribution system, i.e., purchases of U.S.-made parts which could be installed on Japanese vehicles at U.S. ports, could result in an additional 15 percent U.S. content. This total estimate of 40 percent is conservative. The flexibility of the manufacturing and marketing systems varies among the Japanese producers. Although some producers could exceed the 40 percent estimate, all should be able to meet it.

Congressional testimony of Honda and Nissan that their U.S. assembly operations would close if this bill were enacted was also considered. Their testimony is consistent with the theory that a company attempting to sell in a permanently restrained market can only be expected to do so from the most efficient production base, which in this case would be Japan. The small volumes and higher production costs for U.S. operations would not be sufficient to support continued operation in the United States. It was, therefore, assumed that Japanese companies' U.S. facilities would close.

These assumptions, combined with an analysis of Japanese production capacity and product plans, as well as U.S. demographics and consumer polls, indicate that Japanese auto producers would ship approximately 2.7 million units to the United States in 1987 following imposition of a local content law. This represents a reduction of just over one million units from projected 1987 shipments without content or other import restrictions.

The employment estimates were based on an examination of the last 12 years of automobile production and employment. Regression analysis indicates that, at the margin, one additional direct production worker would be added for each 22.8 cars produced. The total employment ratio, including direct and indirect jobs, was one worker for each 9.2 additional cars produced. A separate employment estimate was made for the U.S. parts "added on" imported cars to increase U.S. content. This "add on" employment impact is an average estimate, not marginal, and thus probably overstates the actual employment effect.

Economic Results

Our findings are shown in the attachment. Enactment of this content law would result in a 4.5 percent average price increase for cars sold in the U.S. Because of the price climb, a strong consumer preference for Japanese cars, and consumer uncertainty about producer reactions to a content law which results in a deferral of new car purchases, the model indicated that sales of domestic motor vehicles would only increase by about 195,000 units. These additional sales are comprised of 101,000 U.S. Basic cars, 84,000 U.S. Luxury cars, and 10,000 U.S. Traditional cars. Total direct and indirect new auto industry jobs created in 1987 as a result of content requirements are estimated at approximately 30,000. These jobs are gained at a total consumer cost of $4.8 billion, or $160,000 per job, and a loss in economic efficiency (consumer cost adjusted for incremental profits) estimated at $3.1 billion. In addition, the rise in the Consumer Price Index would be about 0.16 percent.

Auto Sector Jobs Lost

Three areas of possible negative employment impact from domestic content were examined -- U.S. port employment; the Honda and Nissan assembly plants in the United States; and U.S. Japanese car dealerships.

The Department of Transportation has estimated that as many as 4,500 direct port jobs would be lost from a one million unit decline in imports. The potential indirect job loss could magnify this job loss by several fold.

The closure of Honda and Nissan's assembly plants would directly affect 4,000 workers. An additional 3,000 jobs could be lost by their suppliers.

A regression analysis of dealership sales and employment data for the last 16 years yielded an employment change of approximately 15,000 employees for each one million unit change in sales. Since the results of the model show an approximate 850,000 unit decline in total sales following imposition of domestic content regulations, this would idle about 12,000 workers at U.S. dealerships. Thus, the total job loss in the auto sector would be 23,500, leaving a net auto related gain of 6,500 jobs.

Trade Effects

Following imposition of a local content law, the Japanese Government would have the legal right under the GATT to take retaliatory action against U.S. exports. It is impossible to predict the exact nature of this action. However, enactment of H.R. 1234 could affect approximately $5.5 billion worth of Japanese exports to the United States. Thus, an equivalent amount of U.S. exports to Japan would be directly subject to retaliatory action. The U.S. workers producing those goods (ranging from agricultural products and raw materials to sophisticated aircraft and electronic components) would have their jobs placed at risk. The Commerce Department estimates that about 24,000 workers are directly affected by each $1 billion worth of U.S. exports. Thus, for $5.5 billion of U.S. exports, 132,000 U.S. non-auto workers would have their jobs placed at risk.

Enactment of a local content law by the United States would erode opposition to protectionist pressures abroad. With this Nation having repudiated its traditional role in support of free trade, we could expect new protectionist moves even if no GATT retaliation were sought. In addition, to the extent that the U.S. trade balance did improve, this would be offset in part by upward pressure on the dollar exchange rate.

Impact of H.R. 1234

Economic Effects

Total Consumer Cost	$4.8 billion
Deadweight Loss	$3.1 billion
Increase in Consumer Price Index	0.157% points
Increase in U.S. Motor Vehicle Production	195,000 units

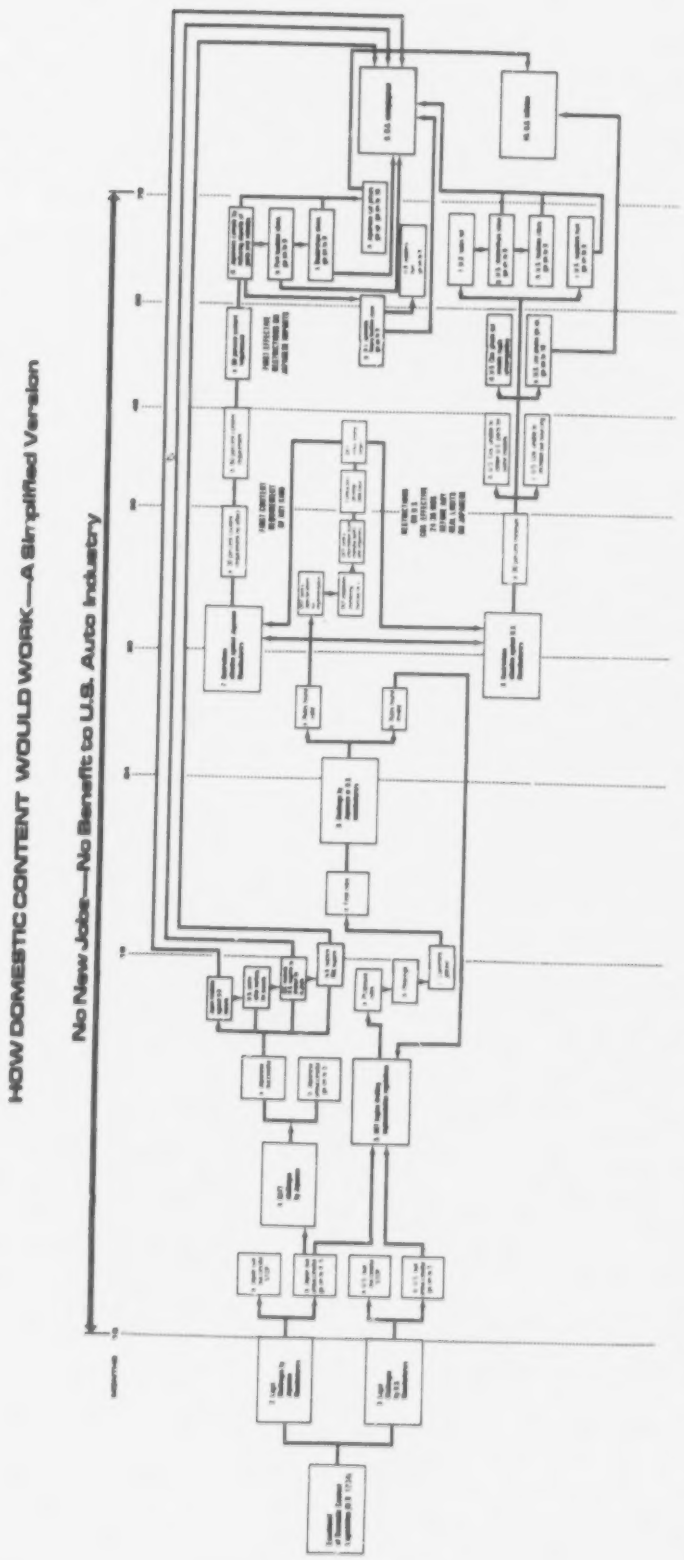
Average Price Increase for All Cars 4.5%

Employment Effects

Gains		Losses	
Midwest:		Midwest:	
Direct Auto Jobs	8,500	Tennessee & Ohio	7,000
Auto Supplier Jobs	13,000		
Rest of Country:		U.S. Ports	4,500
"Add-on" parts	8,500	Rest of Country	12,000
Total Gains	30,000	Total Losses	23,500

Net Auto Sector Jobs 6,500
Consumer cost per job $740,000

Jobs at risk from Retaliation 132,000


HOW DOMESTIC CONTENT WOULD WORK—A Simplified Version
No New Jobs—No Benefit to U.S. Auto Industry

Mr. DEDERICK. One year ago, Secretary Baldrige appeared before this subcommittee to explain the administration's opposition to H.R. 5133, the version of the automotive local content before you then. Conditions in the U.S. auto industry and the economy as a whole were still not healthy, although some signs of imminent recovery were apparent.

The Secretary emphasized the fact that local content legislation would not help the U.S. automobile industry. It would only serve to impede the overall economic recovery.

Much has changed since then. Unfortunately, the substance of the bill before you has not changed. Accordingly, the administration is just as strongly opposed to H.R. 1234 as to its predecessor.

But first, the good news. The U.S. auto industry has already been a major beneficiary of the economic recovery that is now underway. As we emphasized last year, economic recovery provides the most effective help to the industry.

Although the full effects are yet to be felt, the favorable impacts of both the industry's recovery and its restructuring programs are becoming very clear.

Sales of domestically made cars are up substantially over last year. The calendar year-to-date increase has been about 16 percent. The new models that GM, Ford, Chrysler, and AMC have introduced have led the way.

For 1983 as a whole, we now look for total car sales of about 9.2 to 9.3 million units, up from 8 million in 1982. Virtually the entire improvement should be in domestics. Manufacturer and dealer inventories are extremely tight, at present, even though U.S. car production was running 23 percent higher than in 1982, as of the beginning of September.

When September began, the number of U.S. autoworkers on indefinite layoff had fallen 125,000 from its peak of last year. As production continues at high levels and, indeed, moves higher, we expect that more of the 137,750 workers still on layoff will be called back.

In 1978, the U.S. auto companies built 12.6 million cars and trucks and had earnings of $4.8 billion. In 1983, the companies will make almost that much profit on production of about 9.1 million units. This is clear evidence of the success of the U.S. auto industry in cutting costs, increasing productivity, and marketing high-quality vehicles.

In the last year, we have also seen the three major Japanese auto manufacturers make commitments totaling over $1 billion for plant facilities in the United States.

Finally, by 1985, as the recovery continues, total car and truck sales will be about 14.2 million units, a 37-percent increase over 1982.

In short, even though competition is still stiff and the economic health of the industry still has room for improvement, the crisis in the U.S. auto industry has passed.

Local content legislation was never the answer to the problems that the auto industry experienced over the past 3 years. Nor can it further the industry's recovery. It is unnecessary, and it will do grave harm.

Local content is blatantly protectionist. It will temporarily insulate the auto industry from foreign competition, while preventing it from utilizing the lowest cost sources of supplies. Actions of this sort inevitably backfire, and though they may yield some short-term, minimal benefit for the one sector of the economy, they adversely affect the economy as a whole.

This year, as before, the supporters of local content claim that the bill will save or create hundreds of thousands of auto industry jobs, bring Japanese manufacturing facilities to the United States, and make our U.S. industry more productive. Now they also argue that these two amendments will assure that neither Japan nor any other United States trading partner will be justified in taking protectionist steps in reaction to the legislation.

Each of these claims is unfounded.

The promise of massive jobs creation is an empty one.

Our analysis, which I have attached to this statement, shows that enactment of H.R. 1234 will, during the first year of full implementation, increase the price of an average car by about $450. Japanese car sales here will decline by about 1 million units.

American car makers will not be, however, the automatic beneficiaries of the lost Japanese sales. On the contrary, their volume will rise by less than 200,000 units, as consumers react negatively to higher prices and a reduced selection of offerings.

The bill would result in a net increase of only 6,500 jobs in the auto and parts sector, after taking into account job losses at ports, dealerships, and United States facilities of Japanese auto companies. The aggregate cost to the consumer through higher prices would be $4.8 billion, or about $740,000 per net new job. And this ignores the jobs that would be lost because of protectionist measures taken abroad.

In effect, the American consumer would be forced, at a heavy price, to subsidize jobs in the auto sector.

Rather than helping the U.S. auto industry, local content would ultimately hurt it. "Locking in" U.S. manufacturers at a 90-percent level of local content will prevent them from seeking the lowest cost sources of supply.

Thus, while foreign manufacturers will be acting to hold down costs by purchasing parts wherever supplies are least expensive, U.S. companies would be hamstrung. Their competitiveness would steadily deteriorate.

I want to add to the list of objections to local content a matter that has been recently documented in detail. Quite simply, a local content law would be a legal and administrative nightmare. Steps involved in rulemaking, responding to GATT objections, and rule enforcement would stretch out over a number of years after the bill's enactment.

In a study that it recently completed, the Department of Transportation estimated that its enforcement bureaucracy would employ about 120 permanent workers and cost over $10 million a year. This kind of effort and expense cannot be justified by any reasonable expectation of benefits.

The Department of Commerce has prepared a flow chart, which I have attached to my statement, that describes graphically how

complex and time consuming this implementation process would be.

It is a fallacy to argue that local content will strengthen U.S. trade policy, "send a message to the Japanese," or be the "teaspoonful of protectionism" that will make free trade go down easier in other countries. Local content would be a major setback for U.S. trade policy.

Since the end of World War II, every administration and every Congress, in a bipartisan effort, has pursued the goal of free and fair trade. If H.R. 1234 becomes law, the Japanese and our other trading partners will have no reason to take seriously our calls to remove trade barriers. America will have repudiated its traditional leadership on free and fair trade by erecting protectionist barriers to autos.

The damage that local content would do to our trade policy is matched by its threat to U.S. exports. Despite attempts to declare otherwise, it will violate the letter and spirit of the GATT.

If the United States is deemed to have violated the GATT, as this bill certainly would do, we will be required to reduce tariffs on an amount of Japanese goods equal to the cost of the violation. If we fail to reduce tariffs, Japan will have the GATT legal right to take retaliatory measures to keep out the same dollar volume of U.S. goods.

Perhaps even more importantly, enactment of local content would erode the political will of other countries to face down their own internal protectionist pressures. They would be unable to resist. Thus, our protectionist step would invite more of the same by other nations.

How far other countries would go is uncertain, but enactment of this legislation will inevitably put an additional, severe strain on our trading relationships.

To sum up, I want to stress the following points:

One, the U.S. auto industry is playing an important part in our economic recovery. We have had a dramatically changed environment. Though the industry's program for increased productivity and competitiveness is still not fully implemented, the results are already being seen in lower costs, higher quality, and improved sales.

Two, local content is not jobs creation legislation. It could, in fact, become a jobs destruction bill. It merely reshuffles the employment deck across the whole economy and threatens in the process to deal us all fewer cards.

Three, this bill is not the way to "send a message to the Japanese" or to anybody else. We do that by continuing to press hard for trade liberalization, not by encouraging protectionist moves by other countries.

So while most of the problems that domestic content was supposed to remedy are being solved, another problem, the legislation itself, remains unchanged. This is why we are so strongly opposed to H.R. 1234.

This year you will have a vote. If that vote is based on all the facts, we are confident that the bill will be defeated.

Mr. Chairman, I will be happy to answer any questions the subcommittee might have.

Mr. RUSSO. I thank you, Mr. Secretary.

I understand the Ambassador has a speech to make at 10:30 and we have a vote to make.

So, Mr. Ambassador, we understand that when we get back from the vote, if you are not here, there is good reason for it.

Mr. BROCK. Vote right, Mr. Chairman.

Mr. RUSSO. I always try. On this one, it is easy.

Mr. FRENZEL. Mr. Chairman, may I thank any of the gentlemen who may be absent when we return for their splendid testimony.

Mr. RUSSO. The committee will recess until 10:20.

[Recess.]

Mr. RUSSO. The committee will come to order.

Do we have anybody left on the first panel?

Mr. DRIGGS. Mr. Dederick is here, sir.

Mr. RUSSO. Why don't we take our next witness who is a Member of Congress and has other appointments. Why don't we recognize the gentleman from New York, Mr. Ottinger.

STATEMENT OF HON. RICHARD L. OTTINGER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. OTTINGER. Thank you, Mr. Chairman. I appreciate your accommodating my very difficult time schedule today.

I appreciate this opportunity to testify before the Trade Subcommittee on H.R. 1234, the domestic content legislation, which I am proud to be the principle sponsor for.

This legislation has gained the support this year of 164 cosponsors on a bipartisan basis. I believe this overwhelming support is an indication that many of our colleagues continue to believe this legislation is vital for the health of the Nation's domestic automobile industry and economy.

Strength of our auto industry has always been crucial to the economic health of our Nation. To show how central it is, the automobile industry consumes 21 percent of the steel used in the country, 50 percent of the malleable iron, 34 percent of the zinc, 12 percent of the primary aluminum, 13 percent of the copper, and 60 percent of the synthetic rubber.

So if we do not work to rebuild our national automobile industry, we invite ruin to many other industries which support this Nation's economy, and, indeed, threaten the entire future of the Nation in terms of its economic strength and its ability to respond to national emergencies.

The continued economic erosion is a personal catastrophe for the workers whose jobs are eliminated. In January 1983, close to 270,000 workers were reported by the manufacturers to be indefinitely laid off. Since then, 90,000 have been rehired, yet 180,000 remain unemployed.

The auto supplier industries, which provide 2.3 jobs for every one worker hired by the auto companies, have laid off more than 600,000 workers.

The purpose of the domestic content legislation is to rebuild our Nation's automobile industry and rehire the thousands of unemployed. It also warns foreign manufacturers, who have penetrated

27 percent of the U.S. auto market with their imports, that at least the U.S. Congress will insist on fair trading practices.

If foreign manufacturers wish to continue selling automobiles at their present level, they will be required to begin investing in this country. The results will contribute to rebuilding a vital sector of our econony as plants are reopened and workers rehired.

Opponents of the bill blithely ignore our pressing economic problems, preferring to denounce the bill as a return to the days of Smoot-Hawley. While I agree that free trade is the ideal form of international commerce, I find little evidence that it exists in today's world. Instead I see our trading partners shielding their markets from competition while taking full advantage of the open American market.

The direct result has been a decrease in our prominence in world trade, an increase in the share of the American market controlled by foreign goods and erosion of the industrial base vital to a strong and competitive America.

The opponents also repeatedly raise a number of other points. Some of the arguments include: alleged violation of the general agreement on tariffs and trade; risk of retaliation by our trading partners; reduced consumer choice; and finally, an increase in auto prices.

Let me briefly address each of these points.

The bill does not violate the GATT. I understand that the committee has been considering the original legislation rather than that reported by the Commerce Committee. In the legislation that we reported out, we specifically addressed the GATT problem.

The GATT contains a provision which allows nations to suspend their obligations to the GATT requirements for the time necessary to remedy injuries caused by imports. The bill, as reported out by the Commerce Committee, establishes that imports have penetrated our market in such quantities as to cause serious injury to our domestic automobile industry. Under this provision, the bill is in direct compliance with GATT.

Our trading partners will not retaliate against the United States for emulating their own trade practices.

Auto import restrictions are used by every other nation. Japan controls the flow of automobiles through a variety of standards, inspection, and marketing restrictions. France, Italy, Germany, and England have all established quotas limiting the Japanese imports from 3 percent to 11 percent of their markets.

These are provisions far more restrictive to the domestic content legislation that I have proposed. The chances of these nations retaliating against an American action so moderate in comparison to their own is very unlikely.

Consumers will face neither an increase in car prices nor a decrease in choice. Such circumstances could only occur if, as the GBO study assumes, Japan refused to comply with the content ratios and significantly reduced their sales. This is highly unlikely given the importance of the American market to many of the manufacturers: Toyota would lose 17 percent of its current world sales; Nissan's sales would drop 21.6 percent; and Honda would lose one quarter of its market.

When Japan does meet the requirements of the bill, consumers will find a larger choice of automobiles, more competition, lower prices, and many of the unemployed will find themselves back at work.

Many opponents of the legislation are now beginning to question the need for the legislation. They point to the recovery as obviating the need for the legislation, yet two-thirds of laid off auto workers have not been rehired. The auto companies still agree that imports remain a serious threat to our domestic industry.

In a recent op-ed piece in the Washington Post, Lee Iacocca, president of Chrysler Corp., succinctly concluded:

> A level field means a fair game—a game in which all players go by equivalent rules. A level playing field in international trade is necessary to put the biggest game in the world back on the level.

That is what this legislation seeks to do.

The U.S. companies are continuing to increase their outsourcing of parts to foreign manufacturers. Last year 766,500 engines and 1,220,500 transmissions were imported to the United States and Canada. The accounting firm of Arthur Anderson predicts that outsourcing by American manufacturers could reach as high as 40 percent by 1990, which would spell disaster to our domestic industry.

This domestic content bill will help the United States regain the strength the industry has lost over the past decade and save American jobs. It has already sent a message to Japan that continuous abuse of trade will bring congressional action. It is high time that the opponents to the bill understand that it is unrealistic to expect America to remain strong and influential in the world if all the basic industries which comprise our industrial strength are allowed to move overseas.

Mr. RUSSO. Thank you, sir.

Any questions for the gentleman from New York?

Mr. VANDER JAGT. No questions.

Mr. RUSSO. Mr. Jenkins?

Mr. JENKINS. Thank you, Mr. Chairman.

If I could direct a question to the Secretary. I only have one question of the gentleman from New York.

I thank you for your testimony and notice that you indicate that the legislation as it comes out of the other committee has taken care of the problems with GATT in your opinion. Are you saying that we have made a legislative finding if we pass this bill and that there has, in fact, been an injury due to imports?

Mr. OTTINGER. That is correct.

Mr. JENKINS. So therefore, are you taking care of the necessity for ITC to find injury?

Mr. OTTINGER. That is right. Congress would have superseded the ITC and made its own finding of injury.

Mr. JENKINS. Is this permanent legislation?

Mr. OTTINGER. This is permanent legislation.

Mr. JENKINS. I have supported this bill before but I have had some problems with the GATT provisions. That is the reason I am asking this.

Mr. OTTINGER. The legislation is permanent and Congress would have to act, and of course has the ability to act and change that determination as circumstances do change.

It is a finding that at the present time injury does exist.

Mr. JENKINS. Thank you, Mr. Chairman.

Mr. RUSSO. We thank the gentleman from New York.

Mr. OTTINGER. I thank the gentleman very much for accommodating my time schedule.

Mr. JENKINS. I wanted to inquire of Mr. Brock, and he has already left, but maybe you can enlighten me on this. What is the present status of the voluntary restraint agreement that Japan had previously entered into?

I see conflicting statements on this. Do you have any recent information as to what Japan intends to do with that particular agreement?

Mr. DEDERICK. No, sir, I really do not. Ambassador Brock is the person who would be the knowledgeable individual on that, and this is something that is in his area. I would not feel that I could comment on it.

Mr. JENKINS. You don't have any idea as to whether or not they will renew that?

Mr. DEDERICK. Well, I do think we can say that the Japanese are obviously very sensitive to the pressures on the U.S. auto industry and on this administration and the Congress, so I have no reason to doubt that they will have an open mind on this.

I have no reason, in other words, to at this point be negative on that score. But beyond that, all I can state for a fact is that they have agreed to extend the program through March 31, 1984 at current levels. The issue now is whether to extend it beyond that point in time.

Mr. JENKINS. Thank you, Mr. Chairman.

Mr. RUSSO. We thank the Secretary.

Are there any other questions of this panel?

If not, the panel is excused.

Mr. DEDERICK. Thank you very much.

Mr. RUSSO. The next witness is the International Union of the United Automobile, Aerospace and Agricultural Implement Workers of America: Dick Warden, Lee Price, and Mr. Casraiss.

Mr. Warden, your entire statement will be part of the record, and you may proceed as you wish.

STATEMENTS OF DICK WARDEN, LEGISLATIVE DIRECTOR, ON BEHALF OF OWEN BIEBER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, ACCOMPANIED BY LEE PRICE, INTERNATIONAL ECONOMIST; AND GENE CASRAISS, LEGISLATIVE REPRESENTATIVE

Mr. WARDEN. Thank you, Mr. Chairman.

I am Dick Warden, the legislative director of the United Auto Workers Union, and I am accompanied this morning by, on my right, Lee Price who is an international economist in our Washington office, and Gene Casraiss who is a legislative representative in the Washington office.

Owen Bieber had intended to be here this morning to testify and present this statement personally. Unfortunately he suffered a mishap last week and he is still feeling the aftereffects of that, and so I am pinch-hitting for him this morning. He asked me to express sincerely his regrets for his inability to be here this morning with the subcommittee.

Let me say at the outset, Mr. Chairman, that we have listened to the administration's testimony, and I don't think it will be any surprise to you that we disagree with them generally and in many of their particulars as well, and we believe that they have one important error of fact in their testimony having to do with layoffs in the automobile industry. We can explain that later on if the committee desires.

Mr. Chairman, members of the subcommittee, we appreciate very much the opportunity to testify here this morning on behalf of the UAW, its members and their families about H.R. 1234, the proposed Fair Practices and Automotive Products Act. We urge this subcommittee, the full Ways and Means Committee, and the Congress to proceed swifly to enact this legislation.

Mr. Chairman, with your permission, we will file this statement for the hearing record, and I will just go ahead and summarize it.

Some people wrongly believe that the conditions justifying this legislation no longer exist. They think that the recent rebound in auto sales and possible Japanese export restraint will take care of the problems that have prompted the bill. We appear before you today to explain why this bill is needed as much today as when comparable legislation was first introduced in December 1981.

Before the Congress convenes in 1985, the handful of auto companies that dominate the U.S. market will be making critical decisions about where they will locate parts production and assembly of new small cars. However, the consensus of industry experts indicates that both U.S. and foreign companies will supply the United States with a rapidly increasing volume of imported small cars or their components. Thus, auto related employment will rapidly erode unless the U.S. Government takes decisive action.

The proposition that all auto companies with large volume sales here should be investing and creating jobs here has widespread support. Indeed, last year the House of Representatives approved the proposed Fair Practices in Automotive Products Act and as one poll after another has indicated, there is wide support by the American people for this bill.

One goal of this bill is the objective of trying to encourage foreign manufacturers with large sales in this country to produce in this country, but the other one is to attempt to put some kind of floor under what we call out-sourcing. That is the practice of bringing parts and components into this country, assembling cars here and labeling them as U.S. produced. It is a threat to jobs that now exist in this country. That is the exporting of jobs, and dealing with that is the second objective this bill addresses.

The media attention focused upon increased auto sales and auto company profits has led many to assume that employment in the industry is increasing significantly. Unfortunately, that is neither the case now nor does it promise to be in the future. Increased im-

ports of vehicles and parts threaten to continue to aggravate the already high unemployment levels in auto-related communities.

Auto sales are running above last year, but they are still not doing well. Some of you may have seen in the Washington Post this morning a chart on the front page of the business section in which there was an indication of how sales are proceeding this year. If you look carefully at that chart and analyze it, you are going to see that the sales level in the last 10 days in spite of the headline over the story, that the sales level in the last 10 days is actually down in terms of percentage, and that is on an annualized basis.

Now if we are going to look at trend lines—there are some in the administration who say that we should look at trend lines with respect to unemployment; they say "Look at the trend lines." Well, the trend line here is in the wrong direction, and you can see it from the chart that appeared in the Washington Post this morning.

Between 1978 and 1982, auto sales dropped 39 percent and direct auto production jobs skidded 276,000, for a decline of 35 percent.

This year's sales recovery has restored only a quarter of the 1978–82 job loss. Sales in the first 8 months of 1983 amounted to an annual rate of 9.2 million, 29 percent below 1978. As a result, the latest employment figures—577,000 jobs in June—indicate employment still 26 percent below 1978. Moreover, auto-related communities are still suffering unemployment rates far above the very high national average.

Among our members we have 200,000 people unemployed. There have been roughly 400,000 jobs in the industry lost over the last 4 years.

If allowed, imports will further erode auto employment even as sales recover in coming years. Productivity increases will largely wipe out the potential for increased job opportunities with increased sales. In fact, over the last 2 years auto productivity has improved an average 4.3 percent, despite very depressed production levels.

The imperative to improve competitiveness will insure that auto's traditionally high rates of productivity growth will continue. With sales growth and productivity increases each offsetting each other, auto-related employment will decrease with any further increases in import penetration for vehicles and/or parts.

Industry experts are predicting that imports of both vehicles and parts will climb sharply in coming years. By 1990, import share is predicted to be 35 to 40 percent by Commerce Department's auto analysts, 40 percent by Merrill Lynch economists, 35.8 percent by Chase Econometrics, and as much as 65 percent under one "scenario" considered by a National Academy of Engineering panel. A General Motors spokesman predicted last fall that the import share could reach 40 percent as soon as 1985—the year after GM expects to begin receiving small imported cars from Isuzu, the Japanese affiliate it controls, and Suzuki.

In the case of parts, the evidence points to a similar escalation. When the accounting firm Arthur Andersen surveyed management at auto companies this year, it found a consensus that the percentage of imported parts would rise to the range of 20 to 25 percent by 1990. In the last decade, the value of auto parts imported into the

United States from countries other than Canada has grown at an annual rate of 24 percent.

Our current policy cannot give us much assurance about the current terms with other countries. What we need in this country is a policy of our own, one that is not dependent upon the policies of other countries. The auto companies are making decisions now that will determine the location of production several years from now. Plans being made by GM during the last 2 years of restraint do not bode well for our production in this large and within the decade growing segment of the market.

A fall in U.S. production from three-quarters to one-half the market would eliminate the jobs of more than 193,000 auto workers and at least 5.5 times that many outside the auto industry.

Enactment of H.R. 1234, we believe, Mr. Chairman, would have minimal adverse effects on prices, quality and potentially a positive effect upon the quality of vehicles available to the American consumer. Our statement and the appendixes we filed for the record go into more detail on those points.

Where direct comparisons can be made, those cases in which a foreign-based producer has established manufacturing facilities in the United States which make products similar to those produced in the home country, American workers have contributed to superior quality.

There was an interesting article in the Washington Post in the business section over the last weekend that pointed out that there were some problems, for example, in the VW cars that are sold in this country, but the article made the point, and it made it very strongly, that those VW's were not the ones that were assembled in Pennsylvania. They were cars that were produced in West Germany.

I think that is an important point to remember because we have had similar reports from Honda and others about the quality of cars and other vehicles manufactured in this country compared with the quality of those produced elsewhere.

The auto industry has been the centerpiece of the industrial strategy of most of the industrial and newly industrialized countries. In fact, in many ways the United States is alone in failing to assure a stable automotive production base, and that is key to a healthy industrial base in this country. It is also key to our national security.

We are vulnerable at the present time because of this to the practices of other nations. And again, as we said before, we would like to see the Congress begin to work on the whole question of industrial policy, but we believe that an auto content law is an essential part of an effective industrial policy which will provide the kind of stable industrial base that we need in this country.

World trade in automotive products today in our judgment bears no resemblance to the textbook world of free trade. In fact, when you take a look at the provisions of H.R. 1234, it seems very modest when you compare it to the measures that are imposed by the governments of all other major auto-producing nations, including Japan, Germany, Sweden, Britain, France and Italy. We go into more detail on those points in the appendixes that are being filed for the hearing record.

In short, Mr. Chairman, we believe that this bill is not protectionist. We don't believe it is protectionist because it is an invitation to companies abroad to come into this country where they have a huge market, where their sales are fantastic, and to invest some capital and create some jobs.

We believe that that is eminently fair and we would point out to you, Mr. Chairman, that that is precisely what the American automobile companies did when they invested abroad starting early in this century. That is a trend that picked up particularly after World War II.

The administration has testified on the GATT problems, and we are prepared to discuss that with you in some detail if you wish. We also are prepared to talk about the changes that Mr. Jenkins referred to in the other committee if you wish.

I would simply like to say that if this bill is enacted, it would not, in the case of the United States, represent firing the first shot in any kind of trade war. It would instead represent an effort by the United States really to be the last to raise a shield in this area.

Finally, the bill would not isolate the American economy from involvement with other nations but in many ways it would integrate our economy into the world economy and integrate foreign companies into the U.S. economy.

One point on the exchange rate, Mr. Chairman, which is something that we hear a lot about when we come up on the Hill and talk with Members of Congress about this bill. The exchange rate of the Japanese yen now is seriously undervalued for trade purposes due to capital flows out of Japan. Japan's protected, low-interest capital market, coupled with high U.S. rates, accounts for this yen depressing outflow.

According to experts both here and in Japan, measures can and should be taken to raise the value of the yen by 20 percent or more. An appropriately valued yen would raise the costs on the $5,000 Japanese vehicle to $6,000, wiping out two-thirds of the often claimed $1,500 Japanese advantage. The undervalued yen is particularly crucial for the auto industry since the Japanese industry presents the most serious competition for the domestic industry.

Mr. Chairman, we believe strongly that the time has come for the U.S. Government to decide that it will maintain a competitive auto industry. That decision would bring the U.S. into conformity with the pattern of auto policies around the world. That policy is supported by a wide majority of the American people.

This country needs expansionary monetary, fiscal and industrial policies to address the serious problems of its industries. Carefully constructed trade measures must play a part. Enactment of H.R. 1234 would prevent further massive erosions of U.S. auto-related jobs. It could curb the alarming rise of foreign-sourcing by U.S. companies while inducing foreign-based companies to invest here.

Because of the magnitude of the industry and the ripple effect on suppliers and spending, the bill would create and preserve, we estimate, well over 1 million additional jobs in the U.S. economy by 1990.

Mr. Chairman, we thank you for this opportunity to testify on behalf of the UAW in support of the proposed Fair Practices and

Automotive Products Act, H.R. 1234, a bill which we believe is absolutely critical to the future of the automobile industry and the industrial base of our country. We urge the members of this subcommittee, the full Ways and Means Committee and the House of Representatives to support H.R. 1234.

And, again, Mr. Chairman, I would like to apologize on behalf of Owen Bieber for his inability to be with you here today. He wanted very much to do so. This is a bill on which he feels very strongly, and he wanted me to express his sincere regrets.

Thank you very much.

[The prepared statement of Owen Bieber follows:]

STATEMENT OF OWEN BIEBER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

Mr. Chairman, Members of the Subcommittee, I am Owen Bieber, President of the International Union, UAW. I appreciate this opportunity to testify before your Subcommittee on behalf of the UAW, its members and their families about H.R. 1234, the proposed Fair Practices in Automotive Products Act. We urge this Subcommittee and the Congress to proceed swiftly to enact this legislation.

Some people wrongly believe that the conditions justifying this legislation no longer exist. They think that the recent rebound in auto sales and possible Japanese export restraint will take care of the problems that have prompted the bill. I appear before you today to explain why this bill is needed as much today as when comparable legislation was first introduced in December 1981.

Before the Congress convenes in 1985, the handful of auto companies that dominate the U.S. market will be making critical decisions about where they will locate parts production and assembly of new small cars. However, the consensus of industry experts indicates that both U.S. and foreign companies will supply the U.S. with a rapidly increasing volume of imported small cars or their components. Thus, auto related employment will rapidly erode unless the U.S. government takes decisive action.

The proposition that all auto companies with large volume sales here should be investing and creating jobs here has widespread support. Indeed, last year the House of Representatives approved the proposed Fair Practices in Automotive Products Act.

A substantial majority of the American people support local content for auto, according to recent polls by Lou Harris (57 percent favored, 39 percent did not) and by Garth/Penn Schoen (74 percent to 20 percent). Editorials by both Business Week and Automotive News have supported the concept of local content legislation for the U.S. auto industry. (See Appendices B and C). Ichiro Shioji, President of the Japanese Auto Workers, has advocated for several years that Japanese auto companies make significant investments in countries where they have large markets, notably the U.S.

Critical Conditions for Auto Workers

The media attention focused upon increased auto sales and auto company profits has led many to assume that employment in the industry is increasing significantly. Unfortunately, that is neither the case now nor does it promise to be in the future. Increased imports of vehicles and parts threaten to continue to aggravate the already high unemployment rates of auto-related communities.

Auto sales are running above last year, but they are still not doing well. In 1978, the last healthy year for auto sales, the industry employed 782,000 auto production workers and a total of 3.4 million workers directly and indirectly[1] to make over 13 million vehicles (see Appendix D). Last year the industry had only 506,000 production workers, as domestic vehicle sales plunged to less than 8 million. (Car sales in 1982 stood at their lowest level in 21 years.) Thus, between 1978 and 1982, auto sales dropped 39 percent and direct auto production jobs skidded 276,000, for a decline of 35 percent.

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1. The auto industry employed another 227,000 non-production workers. The Bureau of Labor Statistics has estimated that there are 2.36 supplier jobs for every job in the motor vehicle industry.

This year's sales recovery has restored only a quarter of the 1978-82 job loss. Sales in the first eight months of 1983 amounted to an annual rate of 9.2 million, 29 percent below 1978. As a result, the latest employment figures — 577,000 jobs in June — indicate employment still 26 percent below 1978. Moreover, auto-related communities are still suffering unemployment rates far above the very high national average.

In analyzing the effect of imports on jobs in auto-related industries, one should separate the effects of the sales decline in recent years and of productivity improvements in coming years. Domestic vehicle sales are running almost 4 million units below 1978 due primarily to an economy weakened by the Federal Reserve's restrictive monetary policy. (In earlier years, domestics' sales were also hurt by the failure of the U.S. companies to anticipate the rapid change in the auto market toward vehicles with higher gas mileage). Domestic auto sales would now be running a million units higher, however, if imported vehicles had not increased their share of the market from 15 percent in 1978 to 24 percent this year. As the International Trade Commission found in the case the UAW filed for import relief in 1980, such a substantial increase in market share has caused serious injury to the domestic auto industry.

If allowed, imports will further erode auto employment even as sales recover in coming years. Productivity increases will largely wipe out the potential for increased job opportunities with increased sales. In fact, over the last two years auto productivity has improved an average 4.3 percent, despite very depressed production levels. The imperative to improve competitiveness will insure that auto's traditionally high rates of productivity growth will continue (See Appendix F). With sales growth and productivity increases each offsetting each other, auto-related employment will decrease with any further increases in import penetration for vehicles and/or parts.

Industry experts are predicting that imports of both vehicles and parts will climb sharply in coming years. By 1990, the import share is predicted to be 35 to 40 percent

by Commerce Department's auto analysts,[2] 40 percent by Merrill Lynch Economics,[3] 35.8 percent by Chase Econometrics,[4] and as much as 65 percent under one "scenario" considered by a National Academy of Engineering panel.[5] A General Motors spokesman predicted last fall that the import share could reach 40 percent as soon as 1985 - the year after GM expects to begin receiving small imported cars from Isuzu, the Japanese affiliate it controls, and Suzuki.

In the case of parts, the evidence points to a similar escalation. When the accounting firm Arthur Andersen surveyed management at auto companies this year, it found a consensus that the percentage of imported parts would rise to the range of 20 to 25 percent by 1990.[6] In the last decade, the value of auto parts imported into the U.S. from countries other than Canada has grown at an annual rate of 24 percent. Appendix G presents a partial list of major foreign sourcing commitments announced by domestic vehicles companies.

How H.R. 1234 Would Work

The provisions of H.R. 1234, the proposed Fair Practices in Automotive Products Act, are designed to assure a healthy and competitive domestic auto industry. The bill also recognizes the critical power of a handful of giant vehicle manufacturers to decide where production will take place to supply the U.S. market. Under H.R. 1234

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2. "U.S. Industrial Outlook 1983," p. 30-7.

3. Congressional Budget Office, "The Fair Practices in Automotive Products Act (H.R. 5133): An Economic Assessment," August 1982, p. 14.

4. Ibid.

5. "The Competitive Status of the U.S. Auto Industry," July 26, 1982.

6. Arthur Andersen, The Changing U.S. Automotive Industry, 1983.

and S.707, the companion bill, all companies with annual sales here of over 100,000 vehicles would be required to locate some production here, hire workers here and buy auto parts here. After a one year grace period, the requirements would be phased in over the next three years. The content requirement would be based on a vehicle manufacturer's trade balance in automotive products. For example, a 90 percent content requirement would permit a company to have net automotive imports (imports minus exports) worth up to 10 percent of its wholesale auto sales here. A company's content requirement would be based on a smooth scale that starts at 100,000 vehicles, then rises until 900,000 where it levels off. From model year 1987 onward, the content percentage (up to a maximum of 90 percent) would be derived by dividing sales by 10,000. Thus, sales of 355,000 entail a 35.5 percent content requirement. A "safety net" provision prevents a company from reducing its content ratio by more than 10 percent below the 1983 model year. Thus, AMC/Renault which is currently about 80 percent domestic content could not fall below 70 percent. Appendix H shows the content percentage that would be required for each company from model 1987 onward, if they have the same sales levels as in calendar year 1982.

Substantial Positive Effect on Jobs

By 1990, enactment of H.R. 1234/S.707 would create or preserve more than a million jobs, including 193,000 auto jobs, and 456,000 supplier jobs that we would not otherwise have, based upon reasonable assumptions about trends in imported vehicles and parts. (See Appendix L).

At stake is whether the U.S. will continue substantial parts production and assembly of smaller vehicles. Our current policy of accepting one-year-at-a-time commitments from Japan to limit exports to the U.S. cannot give us much assurance about the longer term. The auto companies are making decisions now that will determine the location of production several years from now. Plans being made by GM during

the last two years of restraint do not bode well for our production in this large and, within the decade, growing segment of the market. According to GM's announced plans, its U.S. dealerships will soon sell annual imports of 90,000 Suzukis and 200,000 Isuzus, plus 200,000 U.S.-assembled cars with 50 percent imported value from Toyota. Such new introductions would reduce sales of the Chevette, which GM has made with over 90 percent domestic content since 1975. These decisions by GM will have an adverse effect on the sales and location decisions for other companies' smaller cars. In fact, Ford is reported to be considering the assembly of subcompacts in Mexico with major parts from Toyo Kogyo in Japan and selling them here.

The number and significance of supplier jobs must be emphasized. The auto industry is among the major purchasers of steel (21 percent of U.S. production), maileable iron (50 percent), synthetic rubber (60 percent), zinc (34 percent), copper (13 percent), primary aluminum (12 percent), and "high tech" industrial robots (30 percent). Continued decline in the U.S. auto production base will cripple those industries as well.

U.S. automotive production currently amounts to about three-quarters of the value of new cars and trucks sold here. Imported vehicles and parts in excess of U.S. automotive exports account for the remaining quarter of our market. By requiring U.S. production and purchases by all companies with large sales here, this bill would stabilize the future ratio of U.S. production to sales at roughly three-quarters. By the end of the decade, in the absence of the local content law, U.S. automotive production as a share of the market can be expected to fall to about one-half of U.S. auto sales. A fall in U.S. production from three-quarters to one-half of the auto market would eliminate the jobs of more than 193,000 auto workers — and at least 5.5 times that

many outside the auto industry.[7]

To stabilize U.S. auto production relative to the market, the bill addresses imports of both vehicles and parts. Instead of rising to their predicted 40 percent share of the market, many vehicles which would otherwise have been imported will instead be built here or at least assembled here with imported parts. The overall domestic value-added of foreign companies would rise to roughly 50 percent of the value of their sales here, instead of remaining at about 15 percent. In addition, net foreign sourcing by the largest U.S. companies would be capped at 10 percent of their sales here, and prevented from rising to an otherwise probable 20 percent by 1990.

Stemming the tide of imported vehicles and parts will not cost this economy jobs as some critics have alleged. A critique specifically of the Congressional Budget Office analysis is included as Appendix I. Other analysts have focussed on particular jobs in trucking, at dealerships, and on the docks. Since the bill means that companies would be making more cars here and importing fewer, the total number of jobs in trucking parts and vehicles should increase. Employment at dealerships should not be affected by where the vehicles are built. The 7,000 auto-related jobs on the docks should be little changed since increased exports and imports of parts should largely offset the effect of lower vehicle imports.

Still other critics who have used economic models to estimate a net job loss have tended to assume: (1) that workers and capital equipment are always fully employed and infinitely flexible; and (2) that if one job is destroyed, another pops up to take its

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7. According to the economic model developed by the CBO, for every additional job in the auto industry by 1990 there will be a positive ripple effect adding 5.5 more jobs in the rest of the economy — assuming no retaliation, which we consider appropriate for reasons discussed on pages 11-12. The CBO, however, ignores the effect of the bill in curbing the rise of the import share and of foreign sourcing. (See Appendix I)

place. Under those conditions, anything the government does will only make things worse. In the real world, however, 10.7 million people are looking for work - 2.8 million more than in July 1981. Moreover, the auto import share is expected to soar while plans by the U.S. auto companies call for increased foreign "outsourcing"[8] and reduced U.S. jobs. If the auto industrial base is allowed to continue spiraling downward, the job loss there cannot possibly be offset by additional exports in other industries. The only jobs certain to be created will be serving food in soup kitchens and maintaining sanitation in the "tent cities" all across America. If we add to those kinds of jobs, we can also expect even greater social problems of family and community breakdown, suicide, crime, drug abuse, alcoholism, etc.

Effect on Consumer Prices, Quality and Choice

Enactment of H.R. 1234/S.707 would have minimal adverse effect on prices and quality, and potentially a positive effect on quality of the vehicles available to the American consumer. The frequently cited studies which project significant price increases have assumed a major reduction of market share by foreign companies. However, the evidence from other countries indicates that the auto companies use every effort to maintain their market share. Thus, rather than walk away from this market, all the major auto companies would invest and purchase here in an attempt to maintain and increase their market shares. With such competition, prices will be kept in line.

As shown in Appendix I, the price of new cars has risen less than the overall consumer price index in each of the last five years, a period which includes the last two years of restraint by the Japanese exporters. The auto industry can sustain lower

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8. "Outsourcing" is the practice of purchasing parts and components abroad and then assembling them in this country.

than average price increases because of its remarkable productivity growth. Over the last 25 years, the industry has averaged productivity increases of 3.2 percent annually — well above the average for all of manufacturing. Indeed the industry's productivity has climbed an average 4.3 percent over the last two years. It should be noted here as well that productivity in the Japanese auto industry stood a mere 1 percent above the U.S. industry in 1980, according to an estimate made last year by the Japan Productivity Center. (See Appendix F).

Product quality is justifiably of utmost concern to consumers. The U.S. companies have been making great strides in improving what is known as the "fits and finishes" aspect of quality, and we sense a serious commitment by corporate management to continue progress, in this area. If anything, that commitment would be strengthened after more foreign companies increased their investment here. At the same time, American-made vehicles have been and would continue to be the leaders in other aspects of quality such as durability and safety. Indeed, not only are U.S. made cars safer than Japanese imports, but according to NHTSA crash test data, U.S. small cars are safer than Japanese small cars.

Where direct comparisons can be made — those cases in which a foreign-based producer has established manufacturing facilities in the U.S. which make products simmilar to those produced in the home country - American workers have contributed to superior quality. According to Volkswagen of America, cars built in Pennsylvania are of higher quality than those built in Germany. According to Honda, 90 percent of their Japanese motorcycle output goes to the dealer directly from the production line; the corresponding portion of their Belgian output is 85 percent and for the U.S. it is 95 percent.

A domestic content law would also retain competition among the world's auto companies to provide the American consumer with a wide variety of innovative products built with the most efficient technologies available. The U.S. producers would continue

to be pressured by the discipline of the design and engineering innovations of foreign-based manufacturers. H.R. 1234/S.707 leaves a company ample flexibility to reduce costs by integrating its U.S. operations into a global production network. Beginning with a graduated four-year phase-in, it must generate production here, but can choose which parts or assembly it wants done here and which vehicles and parts it will import. As a result, the American car buyer should have a wide selection of available vehicles with the best quality and most advanced technology.

Current Status of Auto Companies' Local Content

With no substantial departure from current commitments, of the seven companies now building cars and light trucks in the U.S. can meet the requirements of the bill for model year 1987 and beyond. However, to meet their requirements, the six would each have to do less foreign outsourcing than they would do without enactment of the bill. In addition, several other companies would have to make major new commitments to invest and purchase in the U.S. (See Appendix H.)

GM, Ford, and Chrysler have domestic content levels that now exceed the maximum 90 percent content level. In recent years, the Big Three have been making long term commitments that will increase their foreign outsourcing in coming years. If they are free to continue to make such commitments, they will fall substantially below the 90 percent floor in the next several years.

As noted above, AMC/Renault has a domestic content level above that which would be required by the bill.

VW and Honda operate auto assembly plants in Pennsylvania and Ohio, respectively. Both can attain the requisite domestic content by assembling a sufficient number of vehicles with enough U.S.-made parts. VW already does that by operating two parts plants in Texas and West Virginia and purchasing many other parts here.

Nissan (maker of Datsuns) has begun assembling trucks at a site in Tennessee which has room for expansion. Japanese press reports indicate that Nissan management is now seriously considering an additional car assembly plant next to the truck plant. Nissan and affiliated Fuji (maker of Subarus) will have to go beyond that to achieve the content percentage necessary to maintain its current sales level.

As the company that has made the least effort to build vehicles here, Toyota would be the most pressed by enactment of H.R. 1234/S.707. This should come as no surprise to Toyota. As early as 1978 in private meetings in Japan and public USTR statements in 1979, U.S. trade officials have made clear that Japanese auto companies should be investing here. Three years ago, Toyota commissioned three investigations of the feasibility of investing in the U.S. and held meetings to discuss a joint venture with Ford. Results of the feasibility studies were never made public and we suspect that Toyota suppressed findings that U.S. investment would be viable. Toyota's recent agreement to assemble cars in a joint venture with GM inaugurates only the first of the requisite steps for Toyota to achieve the appropriate level of U.S. content in its cars.

Finally, Mitsubishi (selling through Chrysler's dealers and independently) and Toyo Kogyo (maker of Mazdas) also currently make more than 100,000 vehicles sold in the U.S. market each year. At their current sales volume, each could meet the content percentage by embarking on substantial parts procurement or production here.

The three plants to be operated here by Toyota, Nissan, and Honda are very welcome but still inadequate. After they are operating, the average domestic content of all Japanese companies' vehicles sold here will still be less than 10 percent. H.R. 1234/S.707 would bring that average up to roughly 50 percent.

Auto Policies in Other Countries

The auto industry has been a centerpiece of the industrial strategy of most industrial and newly-industrializing countries. Those governments have actively promoted

exports and/or shut off rising imports. As a result, world trade in automotive products today bears no resemblance to the textbook world of "free trade". In fact, H.R. 1234/S.707 seems quite moderate when compared to the measures imposed by the governments of all other major auto-producing nations, including Japan, Germany, Sweden, Britain, France, and Italy. Appendix K and pages 7-8 of Appendix A give greater detail on those nations' trade measures.

GATT, Retaliation, and U.S. Exports

For a bill that would simply give this country an auto trade policy along the lines of other countries, H.R. 1234/S.707 has provoked quite a storm of protest. Critics have called it "the first shot in a trade war" and "another Smoot-Hawley", referring to the 1930 measure that hiked virtually all U.S. tariffs at once. In contrast to the ill-conceived Smoot-Hawley, H.R. 1234/S.707 applies to a single industry in serious import jeopardy. Moreover, it phases in over a reasonable period. Perhaps most importantly, in this case the U.S. would not be firing the first shot but would be the last to raise a shield. Finally, it does not isolate the American economy from involvement with other nations, but integrates foreign companies into the U.S. economy.

Other than American companies, the few companies substantially affected by this bill are based in Japan. What is the likely response of those companies and the Japanese government? In the first place, Japan has never brought a GATT complaint, much less retaliated, against the dozens of countries which restrict Japanese auto exports much more stringently than would H.R. 1234/S.707. Indeed, to achieve or maintain their market presence, Japanese auto companies have invested in many of those countries. Once the Japanese companies have begun to comply in earnest, they would discourage the Japanese government from pursuing a GATT complaint.

It is worth examining the structure for Japanese actions within the GATT and its alternatives to buying from us. As a practical matter, Japan has a very limited

capacity to take action against the U.S. even if it were to go to the GATT and prevail. The GATT procedures require that Japan first meet with the U.S. to try to iron out difficulties before a formal complaint is filed. If Japan were to file a formal complaint, the U.S. could file countercharges against the auto policies of Japan and many other GATT ruling against U.S. auto content legislation, the U.S. could win rulings against the auto policies of most other auto-producing countries. Even if that point should be reached, it would not be in Japan's interest to take action against U.S. exports.

Japan buys from the U.S. only what it cannot make for itself: raw materials and products using technology it does not yet have. For many of these products, the U.S. is Japan's predominant supplier; and for those imports for which Japan does have alternative sources, those source countries have auto policies far more restrictive to Japanese auto imports than the proposed U.S. legislation: Australia, Argentina, Brazil, Indonesia for foodstuffs and raw materials; European countries for manufactured goods. Japan could retaliate against modest U. S. auto content legislation only by buying less from us and more from countries with auto policies which limit their exports even more severely than would H. R. 1234/S.707.

Japan itself is no stranger to using the leverage of its purchases to get greater local production. As pages 9-10 of Appendix A explains in detail, the Japanese government has intervened to insure local aerospace production tied to sales by Boeing, McDonnell Douglas, and Lockheed. Furthermore, Boeing's sales of civilian aircraft in Japan are not made entirely outside Japanese government auspices. The Japanese government owns 37.7 percent of Japan Air Lines which is officially listed as a government-controlled enterprise and buys substantial numbers of Boeing planes.

We strongly believe that heightened international economic tensions warrant our concern. The experience of the 1930s has important parallels and lessons. At that time the U.S. had extremely high real interest rates and the world economy was experiencing volatile exchange rates and general economic decline. These conditions

were primarily responsible for shrinking trade then and are again today. Our international economic distress calls for an international commitment to reflation, repudiation of tight monetary policies, a more orderly exchange rate regime, and expanded credit to countries in balance of payments problems. These, not doctrinaire free trade, were both the policy prescriptions of Keynes after the debacle of the 1930s and the hallmarks of the post-war boom in the international economy.

Problems with Japan: Dualism, Targeting, and the Yen

The U.S. must decide whether to leave the fate of its industrial structure to the policy decisions of foreign governments or to adopt its own policy. Trade with Japan poses the most serious challenge because of its size, aggressive exports, and ambitions in key industries.

Contrary to many reports in the American media, we do not have trade problems because the Japanese worker is somehow inherently superior to the American worker. As noted above, Honda once informed us that the motorcycles coming off the line in Ohio had a lower rate of defects than those assembled in Japan. With the proper equipment and working environment, the American worker can produce as well as or better than the competition.

In the case of auto as in other industries, th Japanese industry does not have technological superiority, either. Experts agree that the Japanese auto industry uses equipment also in use here, much of it developed here.

The remarkable success of Japanese exports instead depends heavily on the dualism of the Japanese economy. On the one hand, the export sector has technological parity with its competitors in other advanced countries. On the other hand, most other sectors of the Japanese economy (e.g., services, agriculture, and other manufacturing goods) have very low productivity which brings down the pay scale of the entire country. Appendix A explains this in greater detail, but the key point is worth emphasizing. In a wide open market, the Japanese industry will displace the counterpart U.S. industry

by merely keeping pace with our technology. In other words, despite the best efforts of the U.S. industry, Japanese export industries have a critical edge due to the lower productivity and concomitant lower pay of the Japanese economy as a whole.

The Japanese government has used credit allocation, import restrictions, subsidies, corporate restructuring, etc. to assist civilian industries in achieving technological parity and large scale production. To one degree or another, the successful Japanese export industries — including auto — have benefitted from such "targeting" measures. These measures can be discarded once a Japanese industry gets revved up to compete successfully in export markets. By maintaining technological parity, the Japanese industry will remain profitable because of factors explained in Appendix A.

The Japanese export sector has also benefitted from the key resources and skilled manpower (especially government spending, engineers, electronics and computer specialists, and skilled craftsmen) that are more available to it in part because Japan devotes a much lower percentage of its economy to defense than does the U.S.

The case of Japan flatly contradicts the thesis that potentially overwhelming import competition is the sine qua non for keeping an industry on its toes in technology and investment. Japan has maintained domestic competition while holding imports at bay.

The exchange rate of the Japanese yen is now undervalued for trade purposes due to capital flows out of Japan. Japan's protected low-interest capital market coupled with high U.S. interest rates accounts for this yen-depressing outflow. According to experts both here and in Japan, measures can and should be taken to raise the value of the yen by 20 percent or more. An appropriately valued yen would raise the "landed cost" of a $5,000 Japanese vehicle to $6,000 wiping out two-thirds of the often-claimed $1500 Japanese advantage. The undervalued yen is particularly crucial for the auto industry since the Japanese industry presents the most serious competition for the domestic industry.

Japanese targeting and the undervalued yen have sped the internal development of the Japanese economy and raised their standard of living. If the effects were confined to Japan, we would not complain. The unfairness of the situation arises from the Japanese export drives, coupled with a passive U.S. trade policy, which have rapidly displaced American industries and jobs.

Enactment of H.R. 1234/S.707 would put Japanese economic policy-makers on notice that they can no longer expect U.S. passivity when Japanese industry adds substantial capacity with the potential to displace hundreds of thousands of U.S. jobs. For the future, they would be more careful that their new growth industries do not inflict such injury to workers in the counterpart U.S. industry.

Conclusion

We recognize that responsibility falls on labor and management in the industry to take resolute action. We do not shrink from our role and responsibility in that regard. We have undertaken the difficult step of renegotiating our agreements with the major auto companies and sacrificing billions of dollars of wages and benefits. Despite an enormous drop in revenues, the auto companies have been plowing nine to ten billion dollars a year into new products and equipment. The companies are also improving product quality, in major part by involving our production worker members in plant decisions.

Unfortunately, these actions will not suffice to assure the stability and vitality of this industry. If the U.S. government does not take action to stabilize the long term, employment in our auto industry is threatened with continued disastrous erosion for the remainder of the decade.

The time has come for the U.S. government to decide that it will maintain a competitive auto industry. That decision would bring the U.S. into conformity with the pattern of auto policies around the world. That policy is supported by a wide majority of the American people.

This country needs expansionary monetary, fiscal, and industrial policies to address the serious problems of its industries. Carefully constructed trade measures must play a part. Enactment of H.R. 1234/S.707 would prevent further massive erosion of U.S. auto-related jobs. It could curb the alarming rise in foreign sourcing by U.S. companies, while inducing foreign-based companies to invest here. Because of the magnitude of the industry and the ripple effect on suppliers and spending, the bill would create and preserve well over a million additional jobs in the U.S. economy by 1990.

Mr. Chairman, we thank you for this opportunity to testify on behalf of the UAW in support of the proposed Fair Practices in Automotive Products Act. We urge members of this Subcommittee, the full Ways and Means Committee and the House of Representatives to support H.R. 1234. Thank you.

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Statement on U.S.-Japan Trade Relations
of
United Automobile, Aerospace and Agricultural Implement
Workers of America (UAW)
before the
House Ways and Means Committee
Subcommittee on Trade

March 10, 1983

The rapid expansion of exports by industries targeted for support by the Japanese government presents the most challenging issue facing our trade policy today. The trade problem is rooted in the dichotomy of the Japanese economy. The Japanese government has overseen the expansion of a narrow, technologically advanced export sector while virtually all other sectors continue to have low productivity. Because this dichotomy will persist for some time to come, we cannot expect the recurring problem of battered and displaced U.S. industries to be relieved by changes in the exchange rate or tax policy in the next several years. U.S. trade policy for autos should constitute a critical part of an industrial policy that can, among other things, counteract the harm arising from Japanese targeting.

The success of the Japanese economy in the last three decades has no parallel in economic history for a country of its size. Between 1950 and 1981, the Japanese Gross Domestic Product (GDP) in real terms grew at an average annual rate of 7.9 percent compared with the U.S. rate of 3.4 percent and the German rate of 5.2. During that same time, Japanese exports grew at an even faster rate. While Japanese exports have been crucial to the success of the Japanese economy, they still make up only 13.4 percent of Japan's GDP. Thus, it is important to note that Japan's phenomenal growth has primarily been built around a rapidly expanding internal market.

Japan's Uneven Economy as the Source of its Export Industries' Success

We have all become familiar with Japan's successful export industries, particularly in durable goods manufacturing such as autos, steel, and electronics. In these stellar industries the technology in Japan matches the best anywhere else in the world. But these familiar industries are not representative of the Japanese economy as a whole. Their agriculture, service sector, and even much of manufacturing remain relatively little touched by modern technology. As a result, taken as a whole, the Japanese economy is far less productive than our own.

We can verify Japan's lower overall productivity by comparing our two countries' gross domestic product (GDP) per worker, a rough indicator of a nation's productivity across-the-board. In 1981, Japan's GDP per worker amounted to 72.6 percent of the U.S. level. (Actual productivity per hour would be even lower because the Japanese probably average at least 10 percent more hours per worker per year.) This wide gap between U.S. and Japanese productivity has been rapidly narrowing. This Japanese percentage rose from a mere 6.7 percent in 1950 to 13.7 percent in 1960 and to 33.7 percent in 1970. As these figures indicate, Japan represents the most advanced of the "newly industrializing countries" (NICs) of the post-war era.

With a less productive overall economy than our own, virtually everyone in Japan gets lower pay than their American counterpart. That applies to executives, engineers, teachers, production workers, etc. For example, the Wall Street Journal of January 5, 1983, reported that U.S. engineers bring down $2,000 to $2,800 a month after a year's experience but new engineers for Sony and Matsushita receive $1,100 a month including benefits. Likewise, the Bureau of Labor Statistics has calculated for 1982 that the average labor cost for production workers in Japanese manufacturing was only 49 percent of that for American manufacturing.

In the jargon of trade theory, a nation's industry has "comparative advantage" when it stands out from other industries in that country. In other words, the key comparison in "comparative advantage" is made within a country, not with competitive

industries in other countries. With such low productivity in so many other sectors, a Japanese industry does not need to attain an absolute advantage over a foreign industry to enjoy an enormous "comparative advantage." By obtaining technology merely on a par with a U.S. industry, a Japanese industry automatically has a wide "comparative advantage" over industries in the U.S. where our industries have more consistently high productivity across industries.

Critics of specific U.S. industries that are being displaced by a Japanese industry often ask rhetorically "when will that industry ever catch up with the Japanese industry?" In fact, the more appropriate question for the foreseeable future is "when will the rest of the Japanese economy catch up with the rest of the U.S. economy?" Until then, the U.S. industry can be on a par with the Japanese but steadily lose the competition. The auto industry is just one case in point. Last year the Japan Productivity Center estimated that in 1980 (when Japanese production enjoyed full capacity utilization and U.S. was depressed) the productivity of the Japanese industry stood just 1 percent above the U.S. industry.

What Makes Japan So Different?

Of course, many countries have substantially lower overall productivity and pay scales than the U.S., but they have caused us less concern. What makes Japan different? Japan stands out because of (1) its ability to install the world's most advanced technology in those industries where it puts its attention and (2) its large domestic market.

The Japanese economy has a corps of engineers, applied scientists and entrepreneurs that is the envy of other countries with hopes of emulation such as Brazil, Korea, India, etc. With government direction and assistance, this corps has scoured the world for the best technology, negotiated for its sale, improved on it, and installed production facilities of the necessary scale in a series of successful export

industries. Not only the NICs, but the countries of Europe, the U.S. and Canada can take lessons from Japan in the commercialization of technology.

The large size of the Japanese domestic market has been crucial both for Japanese success on the one hand and for the problems we have faced on the other hand. The government has helped targeted industries expand with trade restrictions, access to preferential credit, leverage in bargaining and transfer of foreign technology, subsidies in obtaining new production equipment, etc. Such measures have been used for the steel, auto, machine tool industries in the past and for the producer electronics and aerospace industries today. The large internal market permits a sheltered home market to enjoy competition between several Japanese firms each producing at large scale. Thus, once a targeted industry ventures into export markets beyond its sheltered home market, it has substantial production experience and the cost advantages of large scale production.

Lack Of Openness Of The Japanese Economy

The Japanese economy can be very open to imports — when they help or do not harm a domestic Japanese industry. Thus, it favors imports of raw timber but not lumber, iron ore but not steel, etc. On the other hand, when the Japanese government wants to manage the expansion or retreat of an industry, it does not tolerate unfettered free trade. Not allowing free trade dogma to interfere with domestic economic objectives is neither "fair" or "unfair" but sensible policy.

Japan's large net exports in manufactures per se do not indicate a lack of openness of the Japanese market. Japan has few natural resources and little arable land in relation to its population. As shown in Appendix 1, Japan had a deficit of $107 billion in primary products in 1981. It compensates for such large deficits in resources and food with large surpluses in manufactured goods.

For statistical evidence of Japan's lack of openness, we must look at its manufactured imports, particularly the broad category of machinery and equipment (e.g., cars, planes, computers, electrical and electronic equipment, scientific instruments, machine tools, including parts). In 1981, Japan imported $11 billion worth of machinery and equipment (labelled "engineering products" in Appendices 1, 2, and 3) compared to exports of $104 billion. Japan's natural endowments help account for Japan's net manufacturing surplus of $93 billion, but a ratio of exports to imports of ten to one is not mandated by nature. Japan's automotive exports to the U.S. alone ($13 billion in 1981 and 1982) exceed all its imports of machinery and equipment from the entire world.

In contrast, the U.S. had net exports of $24 billion in machinery and equipment made up of $105 billion in exports and $81 billion in imports, for an export to import ratio of 1.3 to 1. (Appendix 2). In its trade with the rest of the world, the European Community had net exports of $66 billion in this category, with exports of $135 billion and imports of $68 billion, a ratio of 2 to 1 (Appendix 3).

The situation is even more stark when we examine trade with developing countries. Japan is near some of the most competitive of those countries: South Korea, Taiwan, Hong Kong, and Singapore. Thus, transportation costs should make those countries more competitive in Japan than the U.S. or EC. However, Japan's imports of machinery and equipment from all non-oil developing countries amounted to only $1.47 billion, but it had exports of 17 times as much — $25 billion — back to those countries. On the other hand, the U.S. exported only twice as much as it imported from those countries ($29 billion versus $14 billion). Put another way, the U.S. imported ten times as much machinery and equipment from non-oil developing countries as did Japan. (The EC once again fell in between with exports five times imports ($32 billion versus $6 billion). Such discrepancies led Taiwan, with machinery and equipment exports of $311 million to Japan but imports of $2.542 billion, in February 1982 to ban imports of 1,553 different products from Japan, including electronic appliances and vehicles.

The Myth Of The "Self-Made" Japanese Auto Industry

There has been a widespread myth, perpetuated by some at your March 10 hearings, that a fledgling Japanese auto industry has burst on the world scene in recent years despite the best efforts of MITI. In fact, the Japanese auto industry was the second largest in the world by 1967 (See Appendix 4). Moreover, as in other industries, the Japanese government — and MITI in particular — has played a key role, both in launching the auto industry as an international competitor and in providing strategic support in later years. With few variations, the pattern closely resembles the set of measures MITI has been using more recently to launch the semi-conductor/computer and aerospace industries.

It is important to put into perspective the achievements and alleged failures of the Japanese industrial policy for auto. The Japanese industry grew from second place with 3 million vehicles in 1967 to first place with 11 million vehicles by 1980. Stiff tariff barriers to auto imports were maintained until the early 1970s, well after Japan had become the world's second largest producer. Onerous standards, customs procedures, and other non-tariff barriers to imported vehicles still remain today. Under government guidance, the auto companies were granted access to preferential credit. This was most crucial to near-bankrupt Toyo Kogyo in the mid-1970s, but according to Toyo Kogyo, such credit help merely followed precedents set for Toyota and Nissan. In addition, the auto industry was an intentional beneficiary of other MITI policies to improve technology and reduce costs for the steel, robotics, and machine tool industries. Finally, until the early 1970s the government prevented foreign investment in Japan's auto market which had become the second largest in the world by 1964 (Appendix 5). The policy changed in the early 1970s to permit minority holdings.

The often alleged MITI "failure" in auto does not withstand close scrutiny. As Japan approached becoming the world's second largest auto producer in the mid-1960s, no Japanese company produced more than a million vehicles (Appendix 6). Because

scale economies are so important for competitive export of vehicles, MITI had visions of just two companies each producing several million vehicles. Hence, MITI attempted to consolidate a dozen different Japanese auto companies into two large companies centered around Toyota and Nissan. Although MITI failed at consolidation, the fundamental MITI vision has been fulfilled on schedule: Toyota and Nissan (with its keiretsu partner Fuji, maker of Subarus) have each produced over 3 million vehicles in recent years. But now three other companies, Toyo Kogyo, Mitsubishi, and Honda also produce over a million vehicles, too. In fact, five of the top twelve companies in the world today are Japanese (Appendix 7). That hardly represents "failure" for an auto industrial policy that was always more concerned with increasing the number of cars produced than decreasing the number of companies producing them.

MITI's continuing efforts in support of the auto industry are further exemplified by its ceramic engine project. According to the Oriental Economist (Appendix 8, page 4), MITI has combined the technical forces of several Japanese companies to overcome the perceived lead in engine technology held by the U.S. industry.

The Inadequate U.S. Auto Trade Policy

The U.S. response to Japanese auto exports has differed markedly from that of the major European vehicle producers. Germany, France, Italy, the U.K. and Sweden have stabilized Japanese penetration of their national markets at 10, 2.5, 0.1, 11, and 15 percent respectively — far less than the 23 percent penetration the U.S. now experiences (Appendix 9). In fact, Japan exported only 851,536 vehicles to the vehicle market of the European Community in 1981, just 40 percent of the 2,304,814 vehicles sent to the U.S., despite the fact that the EC's vehicle market was larger than the U.S. market — particularly for smaller vehicles.

The increase in the Japanese share of the U.S. auto market from 11 percent in 1978 to 21 percent in 1982 significantly aggravated an already serious loss of employment

here. That additional 10 percent share represented 1.05 million of 1982's sales, equivalent to 20.6 percent of the total sales decline of 5.1 million for domestic vehicles. Since more than a million jobs have been lost in producing vehicles, the higher Japanese share accounts for over two hundred thousand lost jobs. We reject the logic of the free trade soothe-sayers (and U.S. import relief law) that would have us ignore those two hundred thousand lost jobs because we have lost more jobs for other reasons.

Over the last several years of friction over auto trade, Japan has made noise about redressing imbalances, but done little. An editor of the Japan Economic Journal has aptly described the Japanese strategy in trade negotiations with the U.S.: "making easy promises and postponing real action almost indefinitely."[1]. The U.S., on the other hand, tends to ignore trade problems until domestic distress gets unbearable.

As our auto deficits with Japan have mushroomed ($38 billion over the last three years), the Japanese have sponsored dozens of meaningless study teams and issued countless press releases, each promising a more balanced relationship in automotive trade and investment. In 1980, the Japanese vehicle companies conducted a much ballyhooed "parts buying mission" to reduce tensions caused by our then $1.3 billion auto parts deficit with Japan. At its conclusion, the spokesperson for the mission assured the American public that the Japanese auto companies would probably buy $300 million worth of U.S. auto parts in 1981. U.S. Commerce Department data indicate that our 1981 exports of auto parts to Japan amounted to $119 million, little more than the $105 million for 1980 once inflation is taken into account. Last year was not better as exports amounted to only $128 million. Between 1980 and 1982, however, our auto parts imports from Japan soared to $1,822 million, causing the parts deficit to widen by another $424 million.

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1. Japan Economic Journal, August 24, 1982, Page 20.

There have been some positive developments in the auto situation with Japan. Toyota, with its recently concluded joint venture with General Motors, has become the last of the three Japanese auto companies with the largest sales here to invest here. Honda has recently begun car assembly in Ohio and Nissan plans to launch truck production in Tennessee this summer. These are welcome first steps by the Japanese companies. However, even when all three have begun production, American production of parts and assembly will constitute less than ten percent of value of Japanese companies' vehicles sold here. In addition, since 1981 the Japanese government has announced annual commitments to limit shipments of cars to the U.S. to 1.68 million. The Japanese share of the domestic car market has nonetheless continued to rise because of the depressed U.S. market. For an industry with lead times of several years, such tenuous annual commitments do not provide a basis for sound planning for the U.S. industry. For that reason, we support domestic auto content legislation discussed below.

Aerospace: Japan's Pursuit of Technology by Controlling Market Access

In recent years, MITI has renewed efforts to become a world competitor in the aerospace industry, an industry which the U.S. now excels. MITI projects a 30 percent world market share by the year 2010. As a major purchaser of aerospace equipment, Japan has used the leverage of its purchases to learn the technology and to gain production experience for its long term plans. The activities of three Japanese companies (Fuji, Kawasaki, and Mitsubishi) have been coordinated to develop the industry's international competitiveness in coming years.

When the Japanese government made multi-billion dollar purchases of F-15s from McDonnell Douglas and P3Cs from Lockheed, it required an average of 40 percent or more of their total value to be produced in Japan. Japanese content in the initial deliveries was to start low and rise gradually. Over the several years of deliveries,

the Japanese companies will acquire enough technology to be producing most of the planes. The Japanese government is willing to pay a substantial (though possibly cheap) price for acquiring aerospace technology. According to the Japanese government, its cost per plane will exceed twice the cost of directly importing finished U.S. planes.

The Japanese government also played an important role in the arrangements made with Boeing. The three Japanese companies are building major components for all the new-generation Boeing 757s and 767s to be sold worldwide. Since Japan will buy only a fraction of those planes, its "local content" (i.e., domestic production value as a ratio of domestic sales value) will probably exceed 100 percent. The Japanese government had earlier forged the aerospace arms of Fuji, Kawasaki and Mitsubishi into the Civil Transports Development Corporation (CTDC). When arrangements for the 767 were made in the fall of 1978, Japanese production was extraordinarily uncompetitive on the world market because the yen was exchanging at 180 to the dollar. In addition, the Japanese government provided almost a $100 million subsidy to the CTDC to join the Boeing project. Finally, the Japanese government has leverage over Boeing since Japan Air Lines is government-owned and is a large potential customer for Boeing planes. Thus, the arrangements with Boeing — in an industry MITI has targeted for promotion — can hardly be considered the result of the free market.

In the last year, the Japanese government has also actively intervened to help Japanese companies participate in the recently concluded jet engine project with United Technologies and Rolls Royce and potentially in new 150-seater aircraft project with Boeing or Airbus.

Distortions from Tax Differences

U.S. trade problems with Japan are also aggravated by the GATT rules for border tax adjustment (BTA). Under the GATT rules, indirect taxes can be rebated on exports and imposed on imports. Since those rules were written, taxes have risen substantially

the world over. The U.S. tended to add to its direct taxes while the Europeans and Japan tended to increase indirect taxes. This made U.S. imports from them carry low tax burdens but our exports to them bear a heavy tax burden.

In the 1950s and 1960s — when taxes were being raised — trade was far more marginal to the U.S. economy. In the last decade taxes have been stable but our exports and imports have grown rapidly. The detrimental effect of the BTA rules can no longer be brushed aside. (Given the current misalignment of exchange rates, the economists' standard rejoinder that exchange rates automatically adjust to offset BTA differences has an especially hollow ring.)

The Low Dollar Value of the Yen

Major shifts in international capital flows have raised the value of the dollar and lowered the value of the yen. As a result, the exchange rate of the yen has fallen far below what is justified on the grounds of trade flows. Many observers believe that on the basis of trade, the yen should have a value in the range of 180 to 200 to the dollar — about 20 percent higher than its current value. (At a more appropriate exchange rate, a Japanese car now costing $5,000 would cost $6,000.) The Japanese should be taking measures to reduce the net capital outflow from Japan which would have a direct impact of reducing their large trade surplus.

No discussion of exchange rates should fail to mention the effect of the tight monetary policy pursued by the U.S. This has forced up real interest rates to levels comparable to the start of the Great Depression (when prices were falling). As foreign funds have been attracted to the U.S., the exchange rate of the dollar has soared against all foreign currencies. The yen in particular was depressed because of such low interest rates in the sheltered Japanese capital market. As U.S. monetary policy has eased in the last half year, not only has the dollar fallen but the yen has strengthened.

For trade purposes — not to mention the health of the domestic economy — that easier monetary policy must be continued.

Thus, both the U.S. and Japan can and should take measures to raise the value of the yen versus the dollar. However, as long as so much of the Japanese economy has such low productivity, the high productivity sectors will enjoy an advantage in trade competition. No sustainable appreciation of the yen can take that advantage away from them.

Appropriateness of Domestic Auto Content

The U.S. social fabric cannot afford rapid displacement of large manufacturing industries by the build-up of the counterpart Japanese industry. With the loss of a million jobs in recent years, U.S. auto communities now have depression-level rates of unemployment. High unemployment is expected to continue even if sales recover. The auto companies will have rapid increases in productivity in coming years. Cars and trucks will get even smaller to satisfy demands for fuel efficiency. With these inexorable pressures reducing employment, stability must be brought to the trade situation.

The domestic auto content bill, H.R. 1234, the Fair Practices in Automotive Products Act, is designed to bring some stability to U.S. auto trade. Both foreign and domestic auto companies would be put on notice that they must produce and buy here in substantial quantities if they intend to sell in in large volume. So long as that is not clarified — whether or not Japanese export restraint is extended — the auto companies will spend their resources in planning and installing offshore capacity to supply this market. This would maintain competition in the domestic marketplace but prevent further massive erosion of the domestic production base.

Just as important, enactment of the bill would have a salutory effect on the problem that Japanese targeting causes in our market. Japanese policy makers would be put on notice that they can no longer expect U.S. passivity when Japanese industry

adds capacity that displaces capacity — and jobs — in this U.S. industry. In the future, they would be more careful that their new growth industries do not have the same effect on the counterpart U.S. industry.

Conclusion

U.S. policy to handle trade problems with Japan must accept the fact that a government-assisted industrial strategy can succeed. The 1983 Economic Report of the President (page 60-61) expressed a mistaken but widespread American notion that interventionist measures "hurt the country which adopts them as well as other countries." Very often in the case of Japan interventionist policies have in fact benefitted the Japanese people, probably more than the spill-over harm to other countries.

The Japanese government has chosen specific strategic industries for promotion by assuring them control of the large domestic market and adoption of the world's best practice technology. If the effects could be confined to Japan, that would not be particularly "unfair". The real unfairness comes from the ensuing Japanese export drives that have rapidly displaced some American industries and jobs, coupled with a U.S. trade policy that considers passivity a virtue. In the name free trade, the U.S. has abstained from measures to eliminate or at least substantially mitigate the problems that arise from Japan's export drives. We cannot blame Japan for problems when we could have prevented them but failed to do so.

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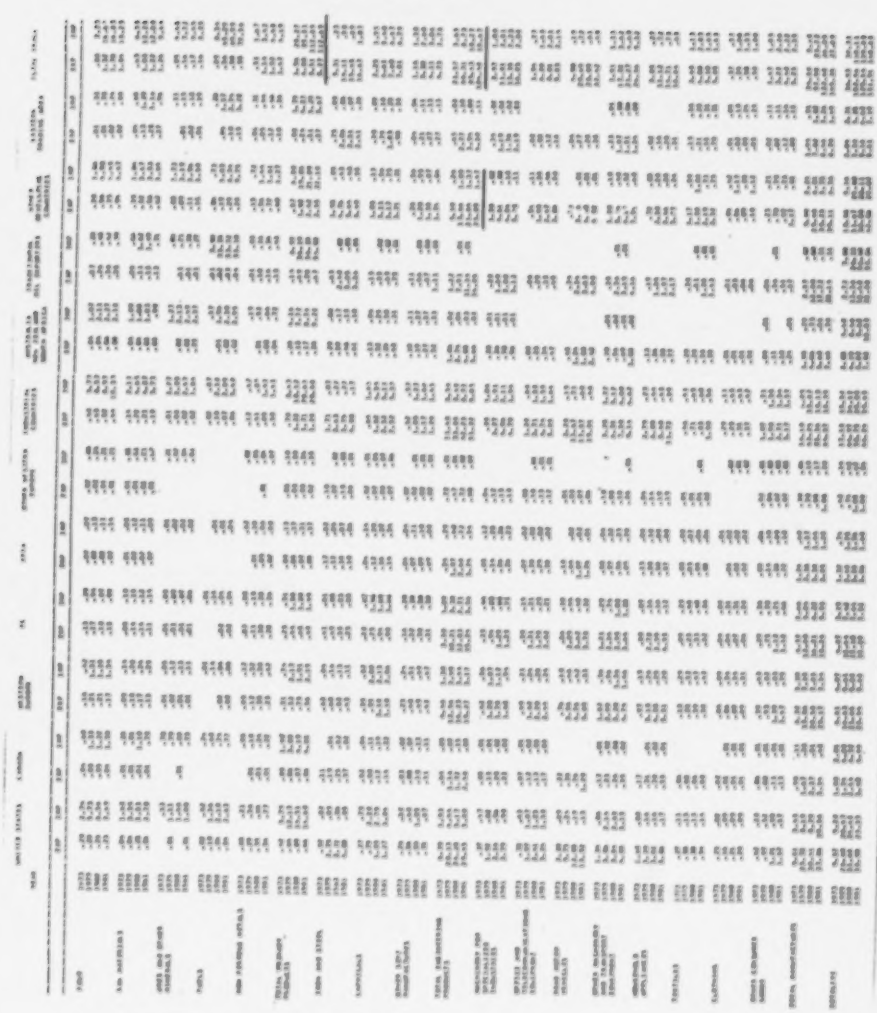
Trade by Area and Commodity Groups - Japan ($ billions)

SOURCE: GATT, International Trade 1981/82 (1982)

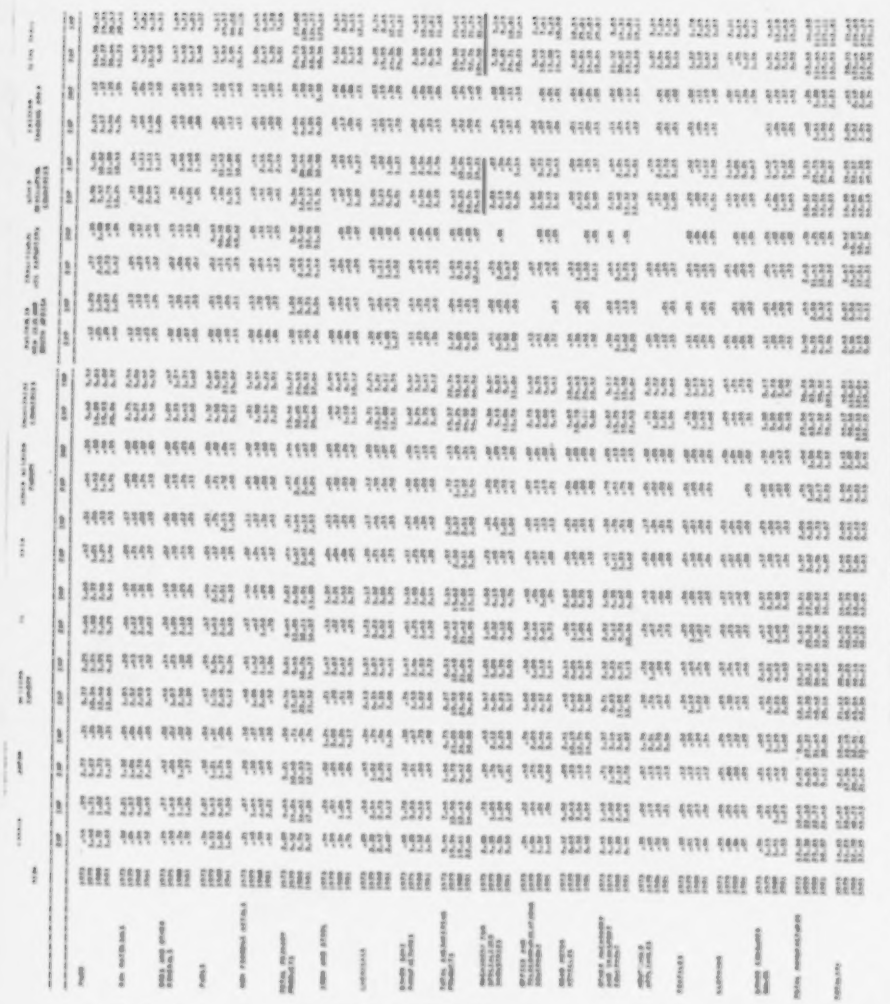
APPENDIX A -- APPENDIX 1



Trade by Area and Commodity Groups - United States ($ billions)

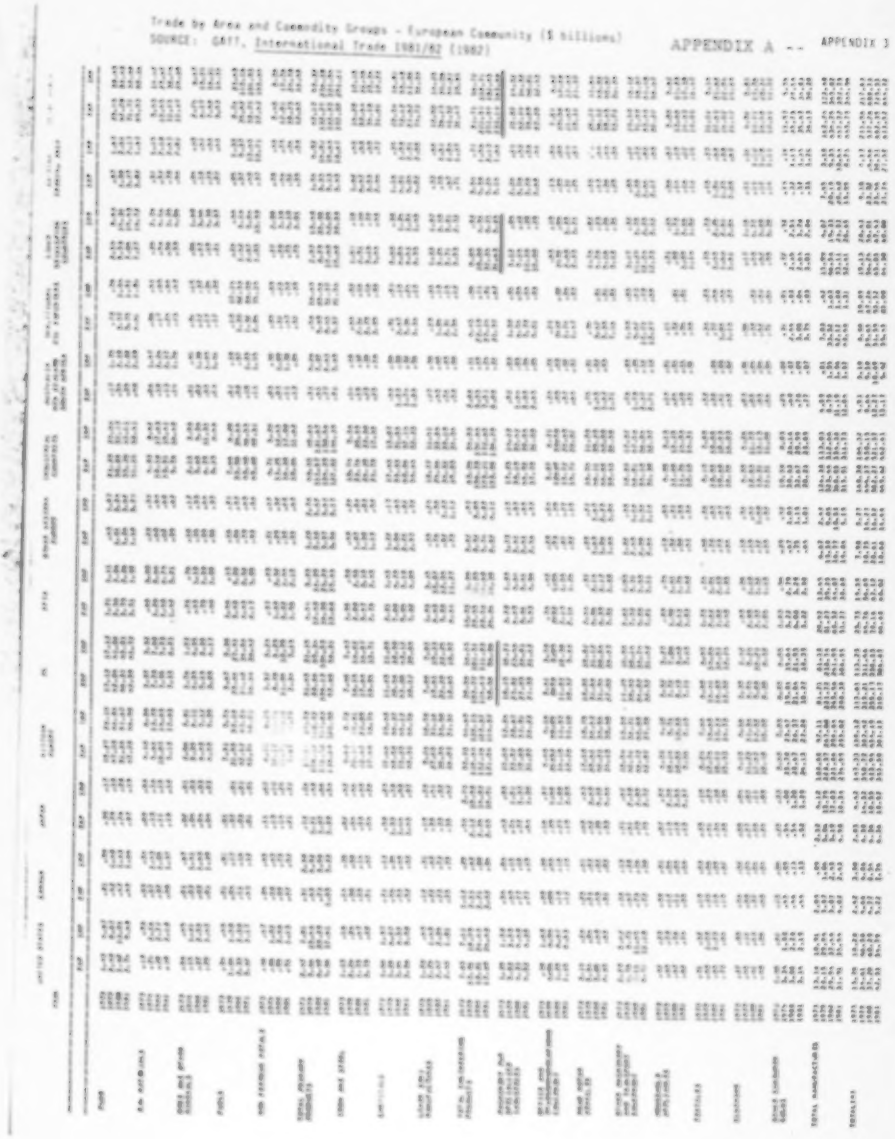
APPENDIX A -- APPENDIX 2

SOURCE: GATT, International Trade 1981/82 (1982)



Trade by Area and Commodity Groups - European Community ($ billions)
SOURCE: GATT, International Trade 1981/82 (1982)

APPENDIX A -- APPENDIX 3



WORLD - PRODUCTION 1940-1981

Motor Vehicles-Selected Countries

	United States	Canada	Japan	France	Germany	Italy	United Kingdom	Total pp. 12 & 13	Total
1940	4,472,286	223,103	-	-	72,000	-	133,869	-	4,901,168
1941	4,840,502	270,191	-	-	-	-	145,430	-	5,256,123
1942	1,041,524	228,293	-	-	-	-	160,522	-	1,430,339
1943	699,828	178,064	-	-	-	-	149,318	-	1,027,210
1944	738,134	158,038	-	-	-	-	132,955	-	1,029,127
1945	725,215	132,645	-	34,625	6,805	10,290	139,405	74,700	1,123,685
1946	3,100,820	170,695	14,921	96,062	30,671	28,983	359,634	111,624	3,913,410
1947	4,795,587	242,107	11,320	137,383	23,258	43,736	441,284	158,878	5,853,550
1948	5,220,755	261,009	20,367	198,372	81,199	59,953	507,608	235,588	6,584,850
1949	6,243,834	290,664	28,700	285,641	163,504	86,054	628,198	317,518	8,044,111
1950	8,005,859	387,726	31,597	357,552	306,034	127,847	783,672	577,526	10,577,813
1951	6,757,014	415,420	38,490	445,655	374,108	145,553	733,883	541,491	9,451,614
1952	5,561,796	434,102	38,966	498,962	428,018	138,448	689,657	529,573	8,319,519
1953	7,349,123	486,049	49,778	497,348	490,048	174,320	834,275	617,328	10,498,265
1954	6,536,729	352,109	70,073	600,040	680,509	218,715	1,037,879	730,919	10,224,973
1955	9,204,049	452,114	68,932	725,061	908,702	268,766	1,237,068	877,998	13,742,690
1956	6,918,759	471,350	111,066	827,079	1,075,603	315,802	1,004,544	927,798	11,652,001
1957	7,220,631	413,577	181,977	927,956	1,212,206	351,815	1,149,095	1,071,323	12,528,380
1958	5,121,269	356,418	188,303	1,127,549	1,495,221	403,560	1,364,407	1,297,610	11,354,337
1959	6,723,588	367,939	262,814	1,283,159	1,718,544	500,784	1,560,427	1,453,231	13,870,486
1960	7,905,117	397,739	481,551	1,369,210	2,055,127	644,633	1,810,700	1,712,801	16,376,878
1961	6,652,938	386,923	813,879	1,244,223	2,147,825	759,140	1,464,134	1,740,459	15,209,521
1962	8,197,311	505,187	990,706	1,536,133	2,356,594	946,793	1,674,530	1,991,011	18,198,265
1963	9,108,776	631,356	1,283,531	1,736,977	2,667,896	1,180,536	2,011,720	2,090,231	20,711,023
1964	9,307,860	670,990	1,702,475	1,615,896	2,909,657	1,090,078	2,332,376	2,385,092	22,014,424
1965	11,137,830	846,609	1,875,614	1,841,696	2,976,477	1,175,548	2,177,261	2,729,310	24,560,345
1966	10,396,299	872,214	2,286,399	2,024,552	3,050,708	1,365,898	2,042,354	2,936,889	24,975,313
1967	9,023,736	919,508	3,146,686	2,009,872	2,482,319	1,542,669	1,937,119	3,105,594	24,167,203
1968	10,820,410	1,150,218	4,085,828	2,075,617	3,108,958	1,660,370	2,225,122	3,451,944	28,576,465
1969	10,205,911	1,328,478	4,674,923	2,459,072	3,604,567	1,595,951	2,182,793	3,979,582	30,029,277
1970	8,283,949	1,159,504	5,289,147	2,750,086	3,842,747	1,854,252	2,098,498	4,411,216	29,688,899
1971	10,671,654	1,346,705	5,810,774	3,010,294	3,982,722	1,817,019	2,198,146	4,869,933	33,707,307
1972	11,310,708	1,430,084	6,294,438	3,328,320	3,815,982	1,839,793	2,329,430	5,387,508	35,736,263
1973	12,681,513	1,574,820	7,082,757	3,596,179	3,949,065	1,957,994	2,193,941	6,184,546	39,190,815
1974	10,072,682	1,524,874	6,551,840	3,682,847	3,099,777	1,772,515	1,936,685	6,559,103	34,980,303
1975	8,986,605	1,424,006	6,941,391	2,861,305	3,186,208	1,458,629	1,648,399	6,792,274	33,299,017
1976	11,497,391	1,840,112	7,841,447	3,402,715	3,868,089	1,590,677	1,705,506	7,034,015	38,579,952
1977	12,702,782	1,775,445	8,514,522	3,507,881	4,104,216	1,583,917	1,714,240	7,301,785	41,204,768
1978	12,899,202	1,817,457	9,269,153	3,507,930	4,186,364	1,656,115	1,607,467	7,684,392	42,628,080
1979	11,479,993	1,631,681	9,635,546	3,613,458	4,249,743	1,632,289	1,478,512	8,188,306	41,909,508
1980	8,009,841	1,374,359	11,042,884	3,378,433	3,878,553	1,610,287	1,312,914	8,176,485	38,783,756
1981	7,942,916	1,322,780	11,179,962	3,019,370	3,897,007	1,433,743	1,184,205	7,570,862	37,550,845

NOTE: Different from world total shown on page 8 since this total is inclusive of production and assemblies for the countries listed.

VARIOUS SOURCES

Source: Motor Vehicle Manufacturers Association of the United States - World Motor Vehicle Data (1982 edition)

APPENDIX A
APPENDIX 5

WORLD - NEW REGISTRATIONS 1928-1981

Motor Vehicles-Selected Countries (In Thousands)

	Canada	Belgium	France	Germany	Italy	Japan	Nether-lands	Sweden	Britain-land	U.K.	U.S.
1928	"	"	"	"	17.9	"	"	"	"	213.2	3,480.7
1929	"	"	222.4	"	39.1	"	"	24.1	"	237.4	4,607.3
1930	"	"	225.6	97.1	31.1	"	"	22.2	"	225.0	3,036.7
1931	"	"	188.3	68.8	18.5	"	"	19.5	"	203.9	2,222.0
1932	45.9	"	166.1	48.0	22.8	"	"	8.0	"	210.3	1,276.8
1933	45.3	"	177.2	93.4	32.0	"	"	8.5	"	248.5	1,739.7
1934	73.4	"	176.6	134.4	34.2	"	"	15.5	"	309.4	2,292.4
1935	101.5	"	162.4	213.9	29.6	"	"	20.5	"	363.0	3,256.6
1936	113.3	"	190.2	258.8	24.6	"	"	26.1	"	411.0	4,016.1
1937	144.4	"	185.0	261.8	39.7	"	"	34.6	"	419.0	4,102.0
1938	121.2	"	205.7	272.7	45.0	"	"	43.0	"	374.8	2,256.4
WAR YEARS	-	"	-	-	-	"	"	-	"	-	-
1946	120.0	"	67.5	7.3	22.0	"	"	19.4	8.5	246.8	2,440.4
1947	230.3	"	62.3	6.3	27.7	"	"	35.5	22.8	299.6	4,044.4
1948	221.3	"	112.4	26.8	43.9	"	"	25.4	26.9	246.4	4,526.1
1949	286.3	"	175.5	114.5	84.5	"	"	22.4	27.6	289.8	5,800.3
1950	429.7	"	238.8	262.7	99.7	23.9	"	73.2	31.1	250.9	7,468.7
1951	385.6	"	317.9	253.0	107.4	35.7	"	74.0	33.3	246.9	6,066.8
1952	400.8	"	378.5	276.8	110.5	48.5	"	63.9	33.3	293.5	4,990.5
1953	463.7	"	378.0	320.1	139.6	63.8	"	89.7	39.8	417.4	6,669.3
1954	377.6	"	443.4	466.3	167.6	74.8	"	142.1	46.3	525.1	6,384.6
1955	435.5	97.3	541.2	599.2	193.1	72.9	"	141.5	56.2	689.9	8,126.9
1956	490.3	105.0	608.1	683.5	231.0	107.1	91.7	145.0	62.1	582.6	6,849.4
1957	468.4	105.2	639.2	720.5	222.6	161.1	83.7	167.5	63.3	595.7	6,840.4
1958	447.6	104.2	697.4	864.0	237.5	171.1	71.1	161.0	64.3	738.7	5,381.2
1959	502.1	116.9	664.4	1,011.9	284.7	238.1	97.7	184.1	73.1	871.1	6,983.4
1960	524.5	147.6	761.7	1,073.4	627.8	408.2	122.9	174.8	97.1	1,074.4	7,520.1
1961	515.2	155.0	838.0	1,213.1	553.8	742.9	148.8	196.7	117.3	1,008.0	6,773.4
1962	582.5	166.6	1,044.9	1,338.9	704.5	933.0	174.6	212.0	136.9	1,020.3	8,007.6
1963	632.6	196.7	1,191.0	1,398.2	1,038.4	1,210.5	212.6	247.1	139.2	1,272.2	8,800.8
1964	711.7	224.4	1,211.6	1,671.2	1,175.3	1,394.3	261.2	272.4	145.6	1,481.4	9,426.9
1965	802.5	275.8	1,202.4	1,644.7	855.9	1,674.9	338.9	294.7	149.1	1,424.3	10,842.8
1966	812.1	255.9	1,367.8	1,633.3	939.6	2,060.1	249.4	226.6	136.0	1,337.1	10,618.9
1967	798.8	360.3	1,382.7	1,467.5	1,074.7	2,714.8	297.0	194.1	162.6	1,405.8	9,875.8
1968	879.8	392.0	1,466.7	1,547.6	1,253.9	3,308.2	374.6	229.9	167.7	1,389.1	11,179.5
1969	909.3	334.6	1,589.0	1,986.4	1,309.0	3,835.4	390.5	243.9	195.2	1,265.6	11,335.3
1970	765.6	321.8	1,504.3	2,271.7	1,448.2	4,100.4	479.1	222.8	225.0	1,377.0	10,178.3
1971	893.9	286.1	1,695.6	2,314.4	1,513.6	4,020.8	445.8	317.1	231.1	1,385.0	11,710.4
1972	993.5	359.3	1,886.7	2,292.0	1,552.5	4,366.6	472.5	236.5	279.0	1,985.8	12,344.8
1973	1,170.2	363.8	2,016.0	2,169.0	1,533.0	4,915.4	472.8	242.4	256.3	1,996.0	14,380.1
1974	1,188.7	369.4	1,777.8	1,800.7	1,381.9	3,849.7	444.1	273.5	237.0	1,321.1	11,358.0
1975	1,104.9	382.4	1,688.7	2,215.1	1,126.2	4,308.9	480.9	302.0	198.3	1,443.5	10,639.0
1976	1,203.9	444.8	2,151.4	2,449.4	1,282.6	4,104.1	508.5	331.9	212.3	1,333.0	12,809.5
1977	1,286.6	453.2	2,205.4	2,699.2	1,329.3	4,194.2	551.9	281.2	265.0	1,597.7	14,335.6
1978	1,307.7	448.4	2,244.5	2,819.9	1,287.5	4,681.9	631.5	237.6	285.9	1,898.4	14,909.4
1979	1,380.1	459.4	2,291.5	2,793.7	1,509.7	5,153.7	617.4	232.2	297.2	2,055.3	13,828.9
1980	1,284.8	433.7	2,196.4	2,601.7	1,432.8	5,013.5	449.1	212.3	302.9	1,816.3	11,237.7
1981	1,173.1	385.4	2,169.4	2,478.9	1,948.5	5,127.0	431.6	207.3	329.2	1,702.5	10,629.4

COMPILED FROM VARIOUS SOURCES

Source: Motor Vehicle Manufacturers Association of the United States - World Motor Vehicle Data (1982 edition)

Production by Make

Production by Japanese Companies

Source: Japan Auto Manufacturers Association, Motor Vehicle States of 1982

	Daihatsu				Fuji			Hino				Honda			Isuzu				Mitsubishi				Nissan Diesel			
	Cars	Trucks	Buses	Total	Cars	Trucks	Total	Cars	Trucks	Buses	Total	Cars	Trucks	Total	Cars	Trucks	Buses	Total	Cars	Trucks	Buses	Total	Trucks	Buses	Total
1956								3,630	1,707	1,513	6,840				2,842	6,966	2,380	11,588		2,436	973	3,409	327	458	785
1957								3,573	2,292	2,018	7,883				2,794	10,316	3,880	16,990		4,484	1,559	6,043	729	691	1,420
1958		287		287	684		684	4,538	1,884	1,985	7,837				2,963	11,323	2,857	17,143		6,652	1,436	8,088	328	404	732
1959		2,831		2,831	5,111		5,111	6,868	2,561	1,651	10,220				2,914	14,770	2,537	21,221		6,687	1,247	7,934	817	462	1,279
1960		3,154		3,154	13,837	110	13,947	7,489	5,745	2,354	15,588				7,933	27,256	2,794	38,005	5,203	10,109	1,591	24,903	1,523	457	1,980
1961		53,871		53,871	22,319	11,986	34,335	12,469	12,532	2,531	27,532				10,875	46,583	4,895	61,533	7,552	34,256	2,712	44,520	2,515	533	3,048
1962		68,548		68,548	13,642	24,671	38,313	11,730	16,567	2,980	31,247				15,367	47,208	4,080	66,647	8,796	48,732	2,835	71,963	2,612	638	3,250
1963	516	100,357	9	100,882	19,020	41,347	60,377	14,793	18,598	3,143	36,493	136	1,339	1,475	22,495	52,318	4,644	79,457	15,882	27,417	3,192	96,491	3,761	770	4,531
1964	5,540	129,113	29	134,698	26,116	48,577	74,693	21,915	23,793	3,483	49,191	5,218	17,614	22,834	34,424	68,308	4,467	107,251	29,497	102,738	3,803	135,538	5,432	717	6,149
1965	11,333	136,597	225	148,155	37,384	54,179	91,563	26,339	21,738	2,968	50,945	8,779	43,749	52,528	38,915	82,468	4,850	126,233	45,905	115,942	3,174	165,021	4,117	853	4,970
1966	21,758	151,660	647	173,857	59,410	82,469	142,879	28,373	24,494	3,145	47,912	3,289	54,589	57,878	32,598	70,317	5,193	108,109	75,642	159,292	3,229	238,164	4,062	889	4,951
1967	68,673	164,538	699	225,498	94,398	78,683	173,080	4,692	24,451	3,795	32,938	87,149	62,130	149,279	38,716	87,809	6,195	132,800	105,950	207,166	4,219	317,335	9,964	1,288	11,252
1968	89,396	170,532	527	260,455	103,746	76,001	179,747	881	29,917	3,563	34,381	146,560	132,257	278,817	39,376	101,193	6,421	147,640	138,253	225,286	4,517	359,956	12,404	1,243	14,647
1969	104,848	158,537	878	264,275	124,677	62,513	187,190	55	25,867	3,468	29,390	232,704	122,183	354,887	36,429	112,223	6,551	155,303	127,813	204,388	5,844	337,250	14,848	1,342	18,190
1970	141,636	167,460	566	309,662	150,259	75,284	225,543	—	32,199	4,345	36,544	276,884	116,824	393,708	38,815	119,536	7,485	165,756	246,422	205,218	5,528	457,168	21,141	1,311	22,452
1971	157,751	153,915	103	311,769	115,466	68,921	184,387	—	44,779	4,098	48,877	215,256	93,222	308,478	34,749	114,867	6,823	156,439	260,981	217,945	5,200	484,126	20,923	1,171	22,094
1972	110,430	160,719	124	271,273	123,339	53,671	183,010	—	54,985	3,923	58,908	226,248	95,321	321,569	33,374	114,761	6,914	155,049	222,898	216,429	5,003	444,330	19,842	728	20,562
1973	113,764	193,008	29	306,801	130,728	77,718	208,446	—	73,143	4,201	77,344	256,962	98,854	355,816	34,734	144,827	6,214	185,775	280,998	275,210	6,134	562,342	22,570	889	23,459
1974	77,249	166,924	26	244,699	102,289	62,240	164,669	—	68,574	5,542	74,116	216,012	112,787	328,829	28,142	112,675	7,598	148,213	233,121	255,425	6,972	495,518	27,818	1,819	29,637
1975	93,123	165,547	4	257,674	108,663	67,162	175,825	—	56,464	4,947	61,411	238,187	85,646	413,753	64,735	124,241	5,245	244,831	288,846	225,942	8,450	520,238	26,336	951	27,287
1976	70,764	189,797	179	260,790	150,379	63,206	241,465	—	54,487	4,173	58,659	473,297	86,478	560,075	91,157	237,535	7,047	335,739	402,844	230,494	6,305	647,643	25,810	1,133	26,943
1977	82,601	235,596	294	318,491	155,705	130,940	286,645	—	52,542	5,317	57,759	576,631	68,302	644,933	74,971	250,043	9,610	340,622	486,437	283,240	6,732	776,412	29,022	1,544	30,566
1978	123,233	203,454	1,063	327,750	140,229	145,220	285,499	—	57,565	4,843	62,408	653,920	89,762	743,682	102,883	290,886	6,447	400,216	520,886	336,430	7,582	872,898	28,426	1,374	29,800
1979	123,556	232,171	610	346,345	153,841	188,649	334,290	—	71,348	6,260	79,608	706,325	98,494	801,869	86,397	331,385	7,105	424,888	538,555	402,110	7,857	938,517	40,908	1,525	42,433
1980	155,604	274,981	1,299	431,324	202,020	223,295	425,633	—	69,003	5,487	74,490	845,514	111,388	956,902	107,857	256,242	8,728	472,827	659,622	438,063	7,245	1,104,930	45,768	2,333	48,101
1981	167,219	223,625	1,410	472,254	210,451	222,188	432,639	—	63,856	6,216	69,376	852,177	156,730	1,008,907	129,564	280,471	7,287	457,342	606,883	479,510	8,008	1,094,393	42,032	2,009	44,041

	Nissan				Suzuki			Toyo Kogyo				Toyota			Aichi	Prince			Others				Grand
	Cars	Trucks	Buses	Total	Cars	Trucks	Total	Cars	Trucks	Buses	Total	Cars	Trucks	Buses	Trucks	Cars	Trucks	Buses	Total	Cars	Trucks	Total	Total
1956	12,965	35,886	561	33,512	24	101	125					12,201	34,229	187		46,417				7,571	109	910	1,019	111,066
1957	18,796	39,646	558	58,940	79	305	484					19,865	58,270	372		79,537				8,807	6,502		10,589	57	1,216	1,273	181,977
1958	16,870	37,412	558	54,840	—	454	454			2,716	2,716	21,234	57,230	322		78,856				4,957	8,838		13,795	9	1,872	1,881	148,303
1959	20,753	50,384	403	77,822	—	1,115	1,115			12,825	12,825	28,235	70,628	351		101,194	120	4,566	12,055		19,631	1	2,200	2,201	262,814
1960	35,849	59,697	719	115,465	—	6,875	6,875	23,617	19,225		42,142	42,118	112,130	322		154,770	19,753	10,939	19,760		34,843	14,843		481,551
1961	74,667	80,370	702	165,737	—	13,979	13,979	31,756	79,908		111,664	73,830	136,677	430		210,937	32,523	14,038	24,868		38,906	—	11,210	11,210	813,879
1962	89,803	122,785	478	212,756	2,565	31,353	33,918	41,822	120,559		162,381	74,515	135,573	263		210,350	37,932	12,944	28,648		41,592	—	1,740	1,740	990,706
1963	118,558	149,063	694	268,315	2,268	37,927	40,195	52,980	138,530		191,511	138,843	189,186	466		328,495	37,288	29,280	24,496		53,776	—	1,373	1,373	1,283,531
1964	168,674	178,821	742	348,237	1,819	29,885	31,704	60,317	184,813		245,130	181,730	243,724	292		425,746	37,167	44,490	40,614		85,104	—	643	643	1,707,475
1965	169,815	172,267	2,088	344,170	1,830	40,177	42,007	61,309	193,736	381	255,426	236,151	239,457	2,885		478,493	33,622	42,810	42,034	1,734	91,576	—	63	63	1,875,614
1966	231,528	236,792	3,798	471,598	3,284	65,101	68,695	92,143	206,668	565	299,376	316,349	268,165	3,185		587,699	38,886	31,588	23,333	934	45,855	—	30	30	2,286,399
1967	252,045	268,028	5,994	526,067	26,454	89,114	115,568	129,851	250,649	822	381,322	476,827	350,703	5,120		832,130	42,568	—	—	—	—	—	3	3	3,146,426
1968	321,614	420,543	7,677	749,834	96,471	96,936	193,377	178,115	283,063	931	461,109	659,349	424,747	13,404		1,097,485	38,567	—	—	—	—	—	21	21	4,685,836
1969	497,691	442,261	6,763	1,148,715	121,671	116,243	238,114	201,132	226,247	847	428,226	964,088	492,106	14,927		1,471,211	23,041	—	—	—	—	—	52	52	6,674,932
1970	899,008	464,945	10,869	1,374,822	144,843	127,649	272,392	224,528	204,570	749	429,847	1,068,221	524,376	16,583		1,609,180	5,672	—	—	—	—	—	95	95	5,289,157
1971	1,101,506	423,508	6,476	1,591,490	150,963	116,458	267,421	260,960	199,756	384	461,080	1,420,146	544,414	10,231		1,955,033	—	—	—	—	—	—	120	120	5,810,774
1972	1,253,251	501,596	8,197	1,864,344	90,493	119,717	210,210	329,703	268,139	422	640,264	1,487,661	599,176	10,396		2,087,133	—	—	—	—	—	—	174	174	6,214,430
1973	1,487,260	547,737	9,204	2,039,341	66,238	135,456	243,734	405,734	271,605	633	729,172	1,631,940	662,201	13,837		2,308,078	—	—	—	—	—	—	309	309	7,282,757
1974	1,255,669	544,216	9,151	1,809,836	58,277	148,563	262,840	378,438	284,579	968	739,984	1,494,237	615,697	14,540		2,114,980	—	—	—	—	—	—	375	375	6,551,840
1975	1,332,713	538,580	6,106	1,877,447	50,668	133,547	184,215	387,143	284,999	988	673,614	1,714,836	608,995	13,373		2,336,204	—	—	—	—	—	—	253	253	6,941,591
1976	1,618,319	686,318	7,166	2,303,703	43,347	156,224	201,581	648,648	369,423	612	1,018,683	1,730,767	701,499	10,385		2,407,651	—	—	—	—	—	—	346	346	7,841,447
1977	1,615,844	654,723	7,063	2,278,051	55,688	184,361	239,989	698,691	280,561	738	980,990	1,884,260	819,699	16,799		2,720,758	—	—	—	—	—	—	183	183	8,514,522
1978	1,752,133	648,879	11,387	2,392,548	62,450	185,238	247,779	693,111	255,864	2,040	950,155	2,029,115	868,549	21,413		2,919,152	—	—	—	—	—	—	421	421	9,269,153
1979	1,738,946	587,441	11,434	2,337,821	69,798	175,127	244,925	647,801	272,687	1,418	921,906	2,111,280	850,894	24,499		2,986,225	—	—	—	—	—	—	394	394	9,603,346
1980	1,948,645	670,646	14,799	2,644,090	67,830	240,653	308,483	768,683	328,349	319,549	1,121,616	2,359,304	984,780	29,860		3,373,944	—	—	—	—	—	—	813	813	11,047,884
1981	1,864,284	668,998	21,824	2,584,388	98,785	454,891	553,676	868,638	331,494	4,484	1,204,616	2,268,171	930,779	42,868		3,220,818	—	—	—	—	—	—	608	608	11,179,963

Source: Japan Automobile Manufacturers Association, Inc.

30 Principal Motor Vehicle Manufacturers Ranked According to 1981 Production

		1974	1975	1976	1977	1978	1979	1980	1981
1.	General Motors (U.S.A.).....	4,672,684	4,649,530	6,233,972	6,700,294	6,875,555	6,444,652	4,753,296	4,627,645
2.	Toyota (Japan).....	2,114,980	2,336,053	2,487,851	2,720,758	2,929,157	2,996,225	3,293,344	3,220,418
3.	Gr. Nissan (Nissan-Fuji).....	2,002,322	2,280,559	2,572,111	2,595,264	2,727,848	2,704,544	3,117,806	3,100,968
4.	Volkswagen-Audi.....	2,083,485	1,940,017	2,159,779	2,219,544	2,376,110	2,530,565	2,529,218	2,210,666
5.	Ford Motor (U.S.A.).....	3,097,981	2,500,238	2,942,051	3,744,691	3,790,440	3,075,131	1,888,455	1,937,297
6.	Renault-R.V.I. (a).....	1,527,089	1,427,282	1,724,448	1,793,221	1,767,346	1,945,289	2,132,540	1,810,365
7.	Peugeot-Talbot-Citroën (a)...	730,769	659,277	1,513,530	1,612,813	1,691,819	1,714,166	1,408,927	1,593,943
8.	Ford Europe (U.K.,G.B. & S)..	988,037	1,099,095	1,355,154	1,647,367	1,554,479	1,663,839	1,395,096	1,435,495
9.	Fiat-Autobianchi-Lancia-OM...	1,498,208	1,231,709	1,425,186	1,453,136	1,510,946	1,542,163	1,554,284	1,209,819
10.	Toyo-Kogyo (Mazda).....	740,088	642,614	716,672	800,003	850,155	971,421	1,121,016	1,176,608
11.	Mitsubishi.....	495,518	520,238	647,623	776,412	972,818	938,517	1,104,930	1,094,793
12.	Honda.....	428,809	413,753	560,075	664,931	742,682	801,869	956,902	1,008,927
13.	Chrysler Co. (U.S.A.- Canada)	1,789,476	1,508,576	2,104,855	2,037,951	1,869,848	1,429,082	882,639	1,002,464
14.	Opel (General Motors).....	640,351	675,299	938,040	946,340	995,935	1,013,629	833,905	855,329
15.	Lada (Fiat-U.S.S.R.).....	650,000	690,000	710,000	725,000	740,000	830,000	825,000	830,000
16.	General Motors (Canada).....	646,151	598,876	713,714	776,993	855,999	845,029	763,663	757,406
17.	Talbot (F. G-B.S.).....	780,779	719,619	756,641	754,060	898,713	711,635	642,575	-
18.	Daimler-Benz.....	512,393	556,470	626,078	661,982	647,562	692,962	717,218	712,315
19.	Suzuki.....	203,860	184,215	201,581	239,989	247,729	344,935	468,683	578,876
20.	Isuzu.....	248,213	244,821	335,739	340,632	408,186	424,788	472,127	457,242
21.	British Leyland.....	863,161	738,240	808,409	770,973	743,103	503,767	395,820	427,495
22.	Ford Canada..	598,621	481,362	527,237	589,295	629,485	491,413	434,902	357,527
23.	B.M.W.....	188,965	221,298	275,022	290,219	320,853	336,981	341,031	351,545
24.	Volvo (S.W.-N.L.).....	257,480	331,337	335,587	245,037	275,816	336,437	285,750	302,172
25.	Polski Fiat.....	104,000	135,000	183,000	200,000	292,000	305,000	330,000	286,000
26.	Moskvitch.....	260,000	300,000	315,000	320,000	320,000	325,000	230,000	235,000
27.	Seat (Licence Fiat).....	364,695	332,078	347,057	352,943	288,103	298,859	297,632	206,628
28.	American Motors.....	487,005	463,702	366,178	312,954	359,131	343,194	252,286	201,567
29.	Alfa Romeo.....	210,995	191,810	203,176	203,175	222,599	209,550	221,243	198,857
30.	Saporoskje (U.S.S.R.).....	120,000	130,000	145,000	145,000	140,000	145,000	150,000	155,000

NOTE: (a) Group Renault-RVI (Savien-Berliet) and Group Peugeot-Citroën from 1975 to 1980 and Peugeot-Talbot-Citroën in 1981.
(b) Since 1975 total Volvo production in Sweden and in The Netherlands.

L'ARGUS

Source: Motor Vehicle Manufacturers Association of the U.S. - World Motor Vehicle Data (1982 edition)

Ceramic Engine: Technological Frontier

—Ceramics Open a New World—

By Yasunobu Otori

A revolutionary engine has made its debut in the world of motor vehicle engines which was long in stalemate. It is a ceramic engine.

Toward the end of 1981, an automobile equipped with the world's first ceramic diesel engine was driven in a test run at Kyoto Ceramic Co.'s Ceramic Center Research Laboratory in Kokubu City, Kagoshima Prefecture and attracted the attention of the world.

The ceramic of which the engine of this vehicle is made differs from the ordinary ceramic. It is fine ceramic which is widely known for its outstanding heat resistivity, wear resistivity and mechanical strength. Both the cylinders and the pistons are made of fine ceramic. For the development of this fine ceramic and the designing of an engine made of fine ceramic, Isuzu Motors has been cooperating with Kyoto Ceramic for several years. The ceramic engine tested on that occasion is a three-cylinder, 2,000cc one, suited for practical use.

Kyoto Ceramic modestly said that the company only wanted to prove that at the present technical level, such a thing is possible. But the significance of this engine is much greater than Kyoto Ceramic says. The ceramic engine is the precursor of an engine revolution which will make the conventional, low-efficiency metal engines a museum piece.

Engine Which Needs No Cooling

The ceramic engine is still in an experimental stage, but the three cylinders which protrude like chimneys show that the engine is an epoch-making product. In the case of a conventioal metal engine, cylinders are invisible from outside because they are surrounded by cooling water pipes. Moreover, a conventional metal engine is equipped with a radiator. Anyway, it has many adjuncts.

The ceramic engine, on the other hand, has no such adjuncts at all because it needs no chilling. Naturally, the temperature of the gas in the cylinders is high and the engine's thermal efficiency is excellent. Thirty per cent of the heat taken away by the cooling water of an ordinary engine can be saved. The ceramic engine's efficiency improves 15-20 per cent compared with that of a metal engine if the high-temperature exhaust gas is recycled by means of a turbo-charger, etc.

Because the engine's weight is doubly reduced by the omission of the cooling system and by a reduction in the size through improvement in the efficiency, the engine's lightweightness further improves its efficiency. The engine revolution will trigger a revolution in motor vehicles. The driving force behind this revolution is progress in fine ceramics.

Precursing FC-DE Vehicles Introduced

Such words or phrases as "ceramics," "new ceramics" and "fine ceramics" are much in vogue these days. We have to define them here in order to clarify the new product which is fueling the engine revolution.

"Ceramics" are general term for pottery and porcelain, refractory materials, bricks, glass, etc. They are produced by heating powder materials to a high temperature, sintering and melting them and causing chemical reactions in them.

However, if a natural material is used in its natural form, the quality and characteristics are limited. Therefore, higher-quality new ceramics have begun to be produced by refining natural materials to a high degree or chemically synthesizing a material which does not exist in nature and using it as a material.

Silicate is used as a raw material to produce conventional ceramics. But the new ceramics are produced by using other materials than silicate, such as alumina and silicon carbide. Alumina could not be used for production of conventional ceramics but silicate can be used as an auxiliary material for production of new ceramics. By doing so, the precision of dimensions and shapes is obtained. However, the use of the auxiliary material robs the product of a considerable part of alumina's characteristics. In the new ceramics stage, the material's original properties are not fully displayed.

Scholars define "fine ceramics" as one step beyond new ceramics. Fine ceramics (FC) are "precision ceramics" where the superior characteristics of the material, such as heat resistivity, anticorrosiveness, hardness, heat conductivity and electric insulating ability, are fully displayed.

For FC production, highly refined materials are used, and FC have a chemical composition adjusted with a high degree of precision. FC are ceramics which are synthesized through a well-controlled moulding and sintering process and which display the required performance in a high degree because they have a carefully designed structure and superior dimensional precision.

Fine Powder of Under 1 Micron in Grain

The purity which the raw materials for FC production are required to have is so high that it is unimaginable from the raw materials of conventional ceramics. It is 99.99 per cent or above. In other words, impurities of up to 0.01 per cent only are allowed.

The grain size of the powder and the manufacturing process wholly differ from those for ordinary ceramics. In some FC, powder of less than one micron (one-thousandth of a millimeter) in grain size is used. This is the same as the wavelength of visible rays.

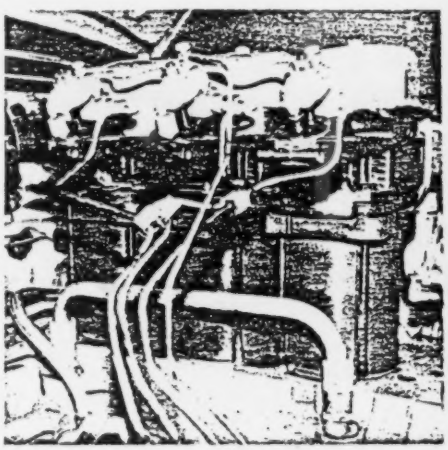
Man-made materials are used for FC production but a process where there is a danger of admitting impurities, such as mechanical pulverization of a solid material, is not used. Ultra-fine grains of a high purity obtained by a solidus phase reaction, a liquid phase reaction and a gaseous phase reaction are used.

A solidus phase reaction is a process in which two or more kinds of solid materials react with each other and produce a new solid material. A liquid phase reaction and a gaseous phase reaction are processes in which ultra-fine grains are produced from a liquid phase or gaseous phase reaction or reactions. Grains of less than one micron in diameter are obtained. Moreover, grain size distribution can be controlled. Depending on the way to cause a liquid phase reaction, one can obtain active ultra-fine grain powder whose grain diameter is 1/50 to 1/100 micron, powder which is just like oil smoke.

GEE Products of the United States, producer of silicon nitrate powder used in FC engines, practices the chemical vapor deposiition (CVD) process based on a gaseous phase reaction and produces powder of grain diameter less than one micron and purity of 99.99 per cent. The product is imported to Japan. Japanese manufacturers are making preparations to practice this process.

Thus, the FC technology is not on the extension of the conventional ceramic technology but belongs to a different, higher order. Then, what is the situation in Japan related to the FC technology and production, the basis for FC engines?

In a word, the potential is not low but Japanese manufacturers have not yet attained a stature where they can compete with their U.S. counterparts. Production of FC material powder in Japan has not yet reached a size where various processes are practiced in industrial scale and the economy of scale is obtained.



Ceramic engine developed by Kyoto Ceramic: The company succeeded in a test run of an FC engine-mounted vehicle.

Withstanding High Temperature

How does Kyoto Ceramic appraise the FC engine and how does it plan to bring it to use for practical purposes? Says Kazuo Inamori, president of Kyoto Ceramic: "Japan has the most advanced technology and the best records in the world in production of electronic ceramics. FC's great characteristic is that it has a great strength at a temperature which metals cannot withstand and that it can be used as the material of parts which are exposed to severe thermal and mechanical conditions, such as parts of motor vehicle engines.

"Metals are oxidated in a high temperature. Even a heat-resisting alloy which excels most in high-temperature strength begins to weaken and becomes soft and prone to deform when the temperature reaches about 600 degrees centigrade. At a temperature of 1,000 degrees or over, it can scarcely support a load.

"Ceramics, however, are difficult to oxidate and do not soften at all at a temperature of 1,500 degrees centigrade where many metals melt. If an engine of ceramics which need no cooling is built, the thermal efficiency (of an internal combustion engine) will dramatically increase. (The heat lost in cooling is 30 per cent.)

"However, engine parts are subject to severe repetitive stresses. Accordingly if parts made of such a hard and brittle material as ceramics (including cylinders and pistons) are going to be used in mass-produced engines, unusual efforts will be required to guarantee the engines' reliability.

"Technology for (nondestructive) tests of parts of complicated shapes, such as pistons and rotors, is yet to be established. Therefore, a testing technology which can be adopted in the process control for mass-produced goods and whose precision is reliable should be developed.

"Ceramics manufacturers must increase the strength of mass-produced products and minimize the unevenness of the quality and process the goods efficiently into the required shapes with the required degree of precision. To increase the strength, a strict quality control in the manufacturing process is necessary. In addition, reinforcement by a special process is also conceivable.

"Regarding the precision of processing," Inamori goes on, "diamond tools must be used to cut and process FC because FC are very hard, but because of their hardness, FC develop little elastic deformation, so it must be possible to process FC with a better efficiency and up to a higher degree of precision than metals if suitable tools are used and suitable cutting conditions are ensured."

Kyoto Ceramic's development goals are all FC which ensure higher energy economy, greater heat resistance and a longer life, such as FC for use in cardinal parts of motor vehicle diesel engines, rotors and ball bearings of gas turbines for electric power generation, spindles of ultra-high precision machine tools, tubes of high-temperature heat exchanges and inside walls of nuclear fusion reactors.

Regarding the motor vehicle diesel engine (of 2,000cc) using an FC of silicon nitrate, Kyoto Ceramic was awarded MITI's (the Ministry of International Trade & Industry) technical development subsidy of ¥120 million a year since fiscal 1979 and has completed a trial model. In fiscal 1981, Kyoto Ceramic launched a four-year second research and development program to develop a practical model on the basis of three years of research and development effort.

Concurrently, Kyoto Ceramic is engaged in joint endeavors with Isuzu Motors for the improvement of the engine design, the development of a production technology and reduction of the production cost. It means that the company intends, in the coming four years, to improve the quality of FC further, develop an engine design which enables FC to display their superior characteristics to the utmost, reduce the number of parts greatly and make the FC engine lightweight, compact and fuel-efficient and bring down its production cost and develop an FC engine which can be used for practical purposes. Kyoto Ceramic hopes to develop a four-cylinder 2,000cc engine.

Toyota and Nissan Also in Development

Kyoto Ceramic led the others in the trial run of an FC engine vehicle but made a belated start on efforts to develop an FC engine.

Toyota Motor Co.'s Central Research Institute already in 1965 started effort to develop a ceramic engine with a conviction that ceramics were the only material of a motor vehicle engine in the future.

It has been reported that Toyota sintered a unique FC of the silicon nitrate family at a temperature of 1,750 degrees centigrade and this FC displayed a strength of 100 kilograms per square millimeter at a temperature of 1,200 degrees centigrade. Toyota produced this FC under normal atmospheric pressure and this has been appreciated as a major accomplishment for eventual mass production of FC engines.

Regarding the prospects for the development of an FC diesel engine at Toyota, it is expected that a trial model will be completed in about 1985 and a car suited for practical use will be completed by the end of the 1980s. Regarding the prospects for a gas turbine vehicle, it is expected that both the experimental car and the car for practical use will be completed not earlier than 1990.

Nissan Motor Co.'s Central Research Institute is also carrying out research for the development of FC engine parts. Nissan says that it is possible to run an experimental car equipped with an FC diesel engine by 1985 but there are many problems in the development

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of a mass-producible engine. Nissan, like Toyota, says that it will be after 1990 that an FC gas turbine is put to practical application.

Toshiba Corp., which manufactures FC, has succeeded in synthesizing a high-quality silicon nitrate powder of a grain diameter of 0.5-1.0 micron whose sintering characteristics are good. An FC made of this material displays the strength of 126 kilogram per square millimeter at the temperature of 1,200 degrees centigrade. Toshiba says that it will develop in conjunction with an automaker an FC diesel engine capable of practical application in the second half of the 1980s.

MITI Prodded into Action

A gas turbine rotor jointly developed by General Motors Corp. and Carborundum Co., both of the United States, was shown at the annual convention of the Society of Automotive Engineering (SAE) held in Detroit in February, 1981. It attracted much attention as a proof of the high U.S. technology because the gas turbine rotor rotates at a very high speed and its development is considered a very challenging task.

MITI, taking a serious view of Japan's technological lag in this area, included FC in its research and development program for next-generation technologies in fiscal 1981 and launched efforts to foster the growth of FC technology. The FC Study Council was set up at the end of 1980 among nine companies, including Kyoto Ceramic, Toshiba and the Advanced Machining Technology & Development Association. In August, 1981, 15 Japanese corporations, including Kyoto Ceramic, Toshiba, NGK Insulators, NGK Spark Plug, Denki Kagaku Kogyo, Shinagawa Refractories and Kurosaki Refractories, formed the Engineering Research Association for High Performance Ceramics under MITI's guidance. A budget of ¥13 billion for a 10-year period has been appropriated for the research by this association. The research will be mainly entrusted to the member companies. The purpose of the research is to catch up with the U.S. level through a competitive research system. It is expected that Japan will catch up with the U.S. in five or six years in regard to FC engines because the member companies have high technology. Kyoto Ceramic, for example, began to export stator blades of FC turbines to General Motors and Ford Motor Co. two years ago.

(The writer is critic on science.)

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APPENDIX A
APPENDIX 9

WORLD - IMPORTS FROM JAPAN 1968-1981

Japanese Car Import Penetration-Selected Countries (In Percentages)

	1968	1970	1972	1975	1976	1977	1978	1979	1980	1981
Australia.....	-	15.4	19.6	32.7	30.0	34.7	33.3	31.2	35.2	34.1
Austria.....	0.1	0.9	7.2	5.4	6.0	5.7	7.0	12.4	19.2	25.4
Belgium.....	3.1	4.9	10.0	16.5	18.0	19.3	17.9	18.0	24.7	24.7
Denmark.....	1.6	3.4	7.1	14.7	16.5	17.1	13.7	18.0	30.9	24.2
Finland.....	14.9	18.3	19.2	20.8	21.9	21.8	20.4	23.9	36.3	33.0
France.....	0.6	0.2	0.4	1.5	2.7	2.6	1.8	2.2	2.9	2.6
Germany West.....	0.1	0.1	0.3	1.7	1.9	2.5	3.7	5.6	10.4	10.0
Ireland.....	-	-	-	-	11.5	15.5	21.8	25.4	31.1	29.6
Italy.....	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1
New Zealand.....	-	6.3	17.8	23.8	26.5	32.8	33.5	48.4	58.4	63.4
Norway.....	3.9	11.4	15.8	28.3	28.3	25.4	20.4	24.2	39.1	37.9
Portugal.....	1.5	10.7	24.9	20.5	16.1	15.2	17.6	7.9	7.5	11.9
Sweden.....	0.1	0.7	2.8	6.5	8.2	10.4	9.7	10.0	12.1	13.7
Switzerland.....	1.5	5.6	13.7	8.4	5.8	12.1	12.6	16.0	23.2	26.9
The Netherlands.....	1.2	3.1	9.5	15.5	16.8	19.8	19.0	19.6	25.7	24.4
United Kingdom.....	0.2	0.4	2.9	9.0	9.4	10.6	11.0	10.8	11.9	11.0
United States.....	1.2	3.7	5.7	9.4	9.3	12.4	12.0	16.6	21.3	21.8

- Not available.

FROM VARIOUS SOURCES OVERSEAS

Source: Motor Vehicle Manufacturers Association of the U.S. - World Motor Vehicle Data (1982 edition)

Appendix B

A better way to handle auto imports

The U. S. automobile industry can make a strong case for some sort of protection against Japanese imports while it retools to serve the small-car market. But instead of slapping a tariff on Japanese cars or negotiating import quotas, Washington should consider a device that is rarely mentioned: requiring imported autos to contain a specified percentage of parts made in the U. S.

One big advantage of this approach is that it would create jobs in the U. S. auto centers without shutting off the profits of Japanese companies or making it impossible for U. S. consumers to buy the kind of car they want. And whereas a tariff would involve the threat of retaliation and a negotiated quota would call for some sort of quid pro quo, a local content requirement would cause a minimum of disruption in ordinary channels of trade.

Another point in favor of the requirement is that it would leave the free market to decide which U. S. suppliers got the Japanese parts business. Hot competitive bidding would put a premium on efficiency and reliability of products. The requirement, therefore, would not provide a shelter for incompetent, high-cost operations—as a tariff would. And it would not protect companies that yielded to union pressure and conceded overgenerous wage and benefit increases. The competing company that held the line on labor costs would be able to carry off the business.

Practically every industrial nation in the world—except the U. S.—has imposed a local content requirement on imports for years. Detroit, of course, would rather have the comfortable protection of tariffs or a quota. But a local content requirement could help the U. S. economy without touching off a trade war.

BUSINESS WEEK, April 13, 1981.

Appendix C

editorial opinion

End the hysteria

Heated debate over the future of imported cars in this market erupted during the recent NADA convention and quickly came to dominate the New Orleans sessions. A great amount of heat and not much light was generated.

Sentiment runs from one extreme to the other: All the way from keeping the market totally free to slamming the door. The stands taken seem largely emotional, based on gut reaction. We think it is time to end the hysteria.

Before it is too late, and before action is taken that is ill advised and could be sincerely regretted later, some sensible decisions must be made.

Now is the time to begin rational debate, aimed toward reaching an equitable decision on import participation.

We still believe that the AUTOMOTIVE NEWS proposal, set forth here a week ago, could well be used as a benchmark. To recap briefly, we think any non-North American automobile should be able to enter the U. S. with no restrictions so long as its volume does not exceed 50,000 units a year. But for each additional 50,000, local content on the total number of cars should be 5 percent. If an auto importer sold 50,001 cars, his cars would have 5 percent local content. If he sold 100,001 cars, his local content would go up another 5 percentage points to a total of 10 percent, and so on. The local-content requirement would reach a maximum of 50 percent when annual sales reached 500,001.

Such a program, we believe, could be implemented immediately, with one-fifth of the appropriate percentage applied right away and increased over the next five years until it reached the proper amount required by sales volume. This would give importers enough lead time to reach the required local content.

We would much prefer that all of the imports would accept this formula voluntarily or, at the very least, work from this as a benchmark.

What we fear is that the government will become involved and produce a complex "solution" that will turn out to be a problem all its own.

If what surfaced at the NADA convention is any indication of what lies ahead, there is going to be too much hotheadedness involved in sorting out the situation. We saw a lot of this—on both sides—at the NADA convention.

The issue must be defused and an equitable solution must be reached. There is not much time left.

AUTOMOTIVE NEWS, February 18, 1980.

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APPENDIX D

Comparisons with a Depressed 1982 Overstate the Auto Sales Comeback

In the **first 8 months of 1983, domestic cars** sold at a 6.6 million unit annual rate. That's up 17.7% from the 5.5 million annual rate for the same period in 1982, but still fully 28.8% behind the 9.2 million annual rate recorded in the first 8 months of 1978, the last really healthy year.

Domestic truck sales, similarly, are up 16.2% from 1982, but that's still 37.8% behind 1978.

Meanwhile, the **imported car share** has grown from 18.6% in the first 8 months of 1978 to 27% so far in 1983. All of the gain has been by **Japanese** models: from 12.5% in 1978 to 21.7% so far this year.

Imported trucks' share, while reduced from its 1981 high of 19.6% by the S-10/Ranger domestic entries, was up sharply in August (to 21.9%) and still stands at 15.4% so far in 1983, up from 7.2% in the first 8 months of 1978.

January-August Sales and Shares in the U.S. Automotive Market

	1983	1982	1978	Change 83/82	Change 83/78
Domestic Cars	4,442,652 (73.0%)	3,774,141 (71.6%)	6,237,106 (81.4%)	+17.7%	-28.8%
Imported Cars	1,638,985 (27.0%)	1,500,596 (28.4%)	1,421,211 (18.6%)	+ 9.3	+15.4
Japan	1,320,798 (21.7%)	1,214,142 (23.0%)	956,503 (12.5%)	+ 8.7	+38.0
Europe	318,187 (5.3%)	286,454 (5.4%)	464,708 (6.1%)	+11.0	-31.5
Total cars	6,081,637	5,274,737	7,658,317	+15.3	-20.6
Domestic Trucks	1,697,175 (84.6%)	1,459,517 (84.9%)	2,728,552 (82.8%)	+16.2	-37.8
Japanese Trucks	308,966 (15.4%)	259,726 (15.1%)	212,895 (7.2%)	+18.8	+45.1
Total Trucks	2,006,141	1,719,243	2,941,447	+16.7	-31.8
Domestic Total	6,139,827	5,233,658	8,965,658	+17.3	-31.5
Imported Total	1,947,951	1,760,322	1,634,106	+10.7	+19.2
Japan	1,629,764	1,473,868	1,169,398	+10.6	+39.4

APPENDIX E

Major (over 500 Jobs*) Big Three Automotive Plant Closings

	JOBS*
CHRYSLER	
Hamtramck, Michigan	5,600
Lynch Road, Detroit	5,000
Warren, Michigan, Recreational Vehicles	2,000
Windsor, Ontario, Engine	2,400
Detroit Universal, Detroit	1,100
Lyons Trim, Mich.	700
Scio Electronics, Mich.	600
Cape Canaveral Electronics, Fl.	500
Huber Avenue, Detroit	2,400
Fostoria Iron, Ohio	700
Vernor Tool and Die, Detroit	700
FORD	
Mahwah, N.J.	4,800
Los Angeles, Calif.	2,300
Flat Rock, Mich.	5,000
Aluminum Casting, Sheffield, Ala.	1,100
GM	
Coit Road Stamping, Cleveland	2,800
Fremont, Calif.	2,600
Southgate, Calif.	2,600
Lakewood, Ga.	4,600
Conner Avenue Stamping, Detroit	1,200

In addition, hundreds of auto supplier plants have been closed over the last several years and 3,500 dealerships have closed their doors.

* At time closing announced. Past employment was often much higher.

APPENDIX F

U.S. Auto Industry Shows High Productivity Growth

Productivity growth in the auto industry has proceeded at a healthy 3.5 percent clip since the late '50s, substantially higher than the 2.7 percent rate attained by the overall manufacturing sector. This is in spite of the all-too frequent cyclical downturns suffered by auto.

Even as the current slump deepened and output (corrected for mix and quality changes) fell an additional 2 percent, the motor vehicle and parts industry was able to show an 8.9 percent increase in productivity from 1980 to 1982. That remarkable performance attests to the competence of the workforce as well as to the robust spending on R & D and capital equipment by the domestic auto companies.

The Japanese Productivity Center, an independent Tokyo-based think-tank with researchers representing labor, business, and academia, recently issued a study on comparative labor productivity between the U.S. and Japan. The study estimates that Japan's auto industry has finally pulled ahead of the U.S., holding a slight — 1% — lead in productivity in 1980. In 1979, the study says, the U.S. was ahead of Japan by 11%.

These figures seriously call into question some U.S. studies which show Japan holding a tremendous productivity edge vis-a-vis the U.S. Moreover, productivity changes depend strongly on utilization of capacity. The Japanese gains from 1979 to 1980 must therefore be put in proper perspective: (a) extremely favorable conditions in Japan, where there was a 15 percent increase in production, coupled with (b) the massive auto crisis in the U.S., where unit output plunged 30 percent.

Although auto production levels continued to be depressed in 1981 and 1982, productivity advanced by 3.0 percent and 5.7 percent in those two years, respectively. If the industry can hike productivity an average 4.3 percent under such conditions, we can expect that rate to be matched in coming years of sales recovery.

APPENDIX G

FOREIGN SOURCING

Partial List of Known 1977-83 Commitments By Major U.S. Automobile Manufacturers to Purchase Foreign-Made Major Components For Use in Domestic Nameplate Vehicles

Manufacturer	Component	Intended For	Source	Approximate Number of Components	Delivery Beginning
GM	2.8 liter 6 cyl	Cars	GM de Mexico	400,000/year	1982
	2.0 liter 4 cyl with transmission	Mini trucks	Isuzu (Japan)	100,000/year	1981
	1.8 liter diesel 4 cyl	Chevette	Isuzu	Small numbers	1981
	1.3 diesel 4 cyl	S-Cars	Isuzu	N.A.	1983
	1.8 liter 4 cyl	J-Cars	GM de Brazil	250,000/year	1979
	THM 180 Automatic transmission	Chevette	GM Strasburg (France)	250,000/year	1979
	Manual transmissions	J-Cars	Isuzu	250,000	1981
Ford	2.2 liter 4 cyl	Cars	Ford-Mexico	400,000/year	1983
	Diesel	Cars	Toyo Kogyo (Japan)	150,000/year	1983
	2.0 liter 4 cyl	Mini trucks	Toyo Kogyo	100,000/year	1982
	2.3 liter 4 cyl	Cars	Ford de Brazil	50,000/year	1979
	Diesel 6 cyl	Cars	BMW/Steyr (West Ger., Austria)	190,000/year	1983
	Diesel 4 cyl	Cars		N.A.	1985
	Manual transaxles	Front Drive Cars	Toyo Kogyo	100,000/year	1980
	Aluminum cylinder heads	1.6 liter 4 cyl	Europe, Mexico	N.A.	1980
	Accessory Motors	Cars, trucks	Ford-Singapore	N.A.	1984
	Electronic Engine control devices	Cars	Tashiba	100,000+/year	1978
	Ball Joints	Cars	Musashi Seimibu	1,000,000/year	1980
	Transmissions	Ranger truck	Ford-France	N.A.	Imminent
	Trim	Ranger truck	Mexico	N.A.	N.A.
	Trim	Econo van	Mexico	N.A.	N.A.
	Trim	Topaz (Fairmont, Zephyr)	Mexico	(Prospective)	
	Windshield glass	Light trucks	Mexico	N.A.	N.A.

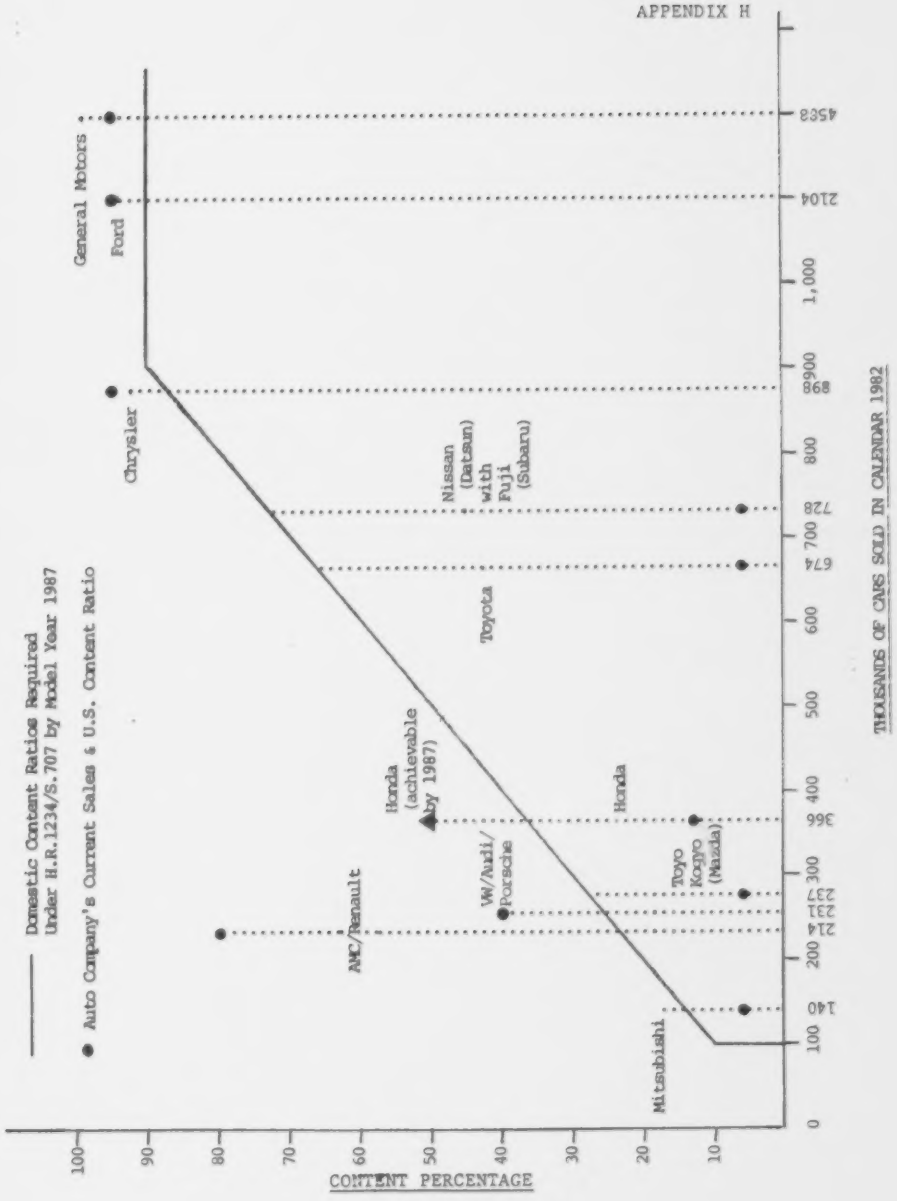
APPENDIX G

Manufacturer	Component	Intended For	Source	Approximate Number of Components	Delivery Beginning
Chrysler	6 and 8 cyl engines	Cars	Chrysler de Mexico	100,000/year	1981
	2.2 liter 4 cyl	K-body	Chrysler de Mexico	270,000/year	1981
	2.6 liter 4 cyl	K-body	Mitsubishi (Japan)	1 million	1981
	1.7 liter 4 cyl	Omni/Horizon	Volkswagen (W. Ger.)	1.2 million	1978
	Manual transmissions	Omni/Horizon	Volkswagen	500,000	1978
	1.6 liter 4 cyl	L-body	Talbot (Peugeot)	400,000 total	1982
	2.0 liter Diesel and 6 cyl	K-body	Peugeot (France	100,000/year	1981
	1.4 liter 4 cyl	A-body (Omni replacement)	Mitsubishi	300,000/year	1984
	4 cyl engines	Cars	Peugeot	N.A.	1985
	Aluminum cyclinder heads	2.2 liter 4 cyl	Fiat (Italy)	N.A.	1984
AMC	Car components and power train	AMC-Renault	Renault in France and Mexico	300,000/year	1982
VWA	Radiators, stampings	Rabbit	VW de Mexico	250,000/year	1979
	4 cyl diesel and gas engines	Cars	VW de Mexico	300,000+/year	1982

N.A. = Figure not available

SOURCES: Automotive News, Ward's Engine Update, Ward's Automotive Reports, American Metal Market, Detroit Free Press, Detroit News, Japan Economic Journal, and Journal of Commerce.

APPENDIX H


Domestic Content Ratios Required
Under H.R.1234/S.707 by Model Year 1987
Auto Company's Current Sales & U.S. Content Ratio
CONTENT PERCENTAGE
100
90
80
70
60
50
40
30
20
10
0
100
200
300
400
500
600
700
800
900
1,000
THOUSANDS OF CARS SOLD IN CALENDAR 1982
140
214
231
237
366
674
728
868
2104
4568
General Motors
Ford
Chrysler
Nissan (Datsun) with Fuji (Subaru)
Toyota
Honda (achievable by 1987)
Honda
AMC/Renault
VW/Audi/ Porsche
Toyo Kogyo (Mazda)
Mitsubishi

APPENDIX H

NOTES TO ACCOMPANY GRAPH

* It is estimated that the U.S. "Big Three" have about 95% domestic content.

* AMC/Renault now has about 80% domestic content.

* Volkswagen says that it has about 70% domestic content in their "Rabbit" line made here today and 40% domestic content after its imports are averaged in.

* Foreign companies without production here may already have 6% content on the basis of their expenses here, e.g. sales staff, freight, advertising, property taxes (based on the Ottinger substitute domestic content calculation).

* Honda has announced that it will soon have Ohio production with 50% U.S. parts with just a one shift operation. Honda can produce a third of its sales and raise its content ratio by 17 points to 23 percent. However, if Honda runs two shifts until 1986, for a comfortable annual rate of 240,000 cars with 70% domestic content, it would produce content worth 45% of its sales last year (371,000). Since Honda would also have a 6% cushion from non-production expenses, it should readily comply with the 37.1% requirement for sales of 371,000.

* Nissan (Datsun) plans to produce trucks in Tennessee that would account for one sixth of its sales last year. If those have 60% domestic content by 1987, that should raise Nissan's content 10 points.

APPENDIX I

UAW CRITIQUE OF CBO ANALYSIS

Last year the Congressional Budget Office (CBO) made alternative estimates of the employment effect of domestic auto content legislation. All its job estimates were skewed downward by several untenable assumptions. The CBO minimizes the positive effects of the bill by simply assuming that imports do not pose a threat to the future of the auto industry. For example, the CBO projected that the import share of the vehicle market would be 25 percent in 1990. That implies no increase in share above last year — contrary even to the consensus of industry experts cited in the CBO report itself. Likewise, the CBO also cavalierly dismisses the problem of increased foreign outsourcing by the U.S. companies from its analysis, again contrary to all knowledgeable analysts of the industry.

For its estimate of a net negative job effect, the CBO made additional and equally unfounded assumptions. They projected that, contrary to the intention of the bill, foreign companies would not build vehicles here and that massive retaliation against U.S. exports would result. They overlooked the fact that both Honda and Nissan were soon to begin vehicle production here. Furthermore, faced with similar auto industry strictures in other countries, Japanese companies have invested and no retaliation has occurred.

To their credit, the CBO did make an employment estimate based on the assumption of no retaliation and the more stringent local content schedule of the original H.R. 5133. Despite assuming away the problem of future increases in imports, they found a positive employment effect of 520,000 jobs!

APPENDIX J

Effect of Domestic Content Law on Auto Prices

The domestic content law would have a very limited effect on prices of U.S. cars because it does not reduce competition in the U.S. market.

Based on extreme assumptions, the CBO predicted that the original H.R. 1234/S. 707 would boost car prices 6%. They assumed that H.R. 1234/S. 707 would function as a quota bill, reducing competition by shutting imports out. Instead, H.R. 1234/S. 707 is an investment bill, which will cause foreign car companies to put plants here in order to maintain access to the U.S. market. Therefore, competition in the U.S. will be stiffer, and the increase in car prices far less than CBO concludes.

The public perceives that car prices have been rising rapidly since 1978 because of "sticker shock." People go several years between buying a car and are surprised at the increase in nominal prices since their last purchase. In fact, auto prices have been rising at a lower rate than overall inflation for several years. When rebates and quality changes are taken into account, and when considering a constant product mix, prices for new cars — domestic and imported — have not exceeded increases in the overall price index for the last five years. Contrary to the critics of the Japanese export restraint, new car prices have continued lower than average inflation since they took effect in April 1981.

Price Increases — CPI

	New Cars	All Items
3/78 to 3/79	7.6%	10.3%
3/79 to 3/80	8.0	14.6
3/80 to 3/81	4.2	10.5
3/81 to 3/82	6.3	6.8
3/82 to 3/83	3.4	3.6
3/83 to 7/83	0.1	2.0

SOURCE: Bureau of Labor Statistics

1984 model price hikes, just being announced, are in the area of a very moderate 2 percent, and prices are being frozen or even reduced on many small models.

APPENDIX K

Treatment of Japan by Other Major Auto-Producing Countries

	Local Content		Local Production of Japanese Cars and Trucks	Tariff	Treatment of Japan
	By Law	In Practice			
Australia	Yes		Yes	35-57%	
Belgium				10.8%[4]	Japan's voluntary export restraint (VER) holds its share to 20% of Belgium market.
Brazil	Yes		Yes	185-205%	
Canada					VER around 25%
France		Yes[2]		10.8%[4]	Customs prevents entry of more than 2] % of French market
Germany				10.8%[4]	VER at 10% of market
Italy		Yes[2]	Yes	10.8%[4]	Allows entry of 2,200 Japanese cars into market
Japan			Yes	0%[3]	
Mexico	Yes		Yes		
Spain	Yes		Yes	68%	
Sweden					Administrative limit at 15%
UK		Yes[1]	Yes	10.8%[4]	VER at 10-11%
US			Yes	2.8%	VER over 20%

1/ While holding Japanese companies to less than 11 percent of their market, the UK has negotiated for government-owned BL, Ltd. to build Honda Acclaims under license. They have also been negotiating with Nissan to build Datsuns there with 80 percent content.

2/ France and Italy have treated British-assembled vehicles as Japanese imports subject to their stiff quotas because they do not have 70-80 percent European content.

3/ Japan kept out auto imports with prohibitive tariffs on autos until the early 1970s. Since then they have relied on non-tariff barriers and have phased out their tariffs. Their product standards differ substantially from other countries. They individually inspect imported cars rather than follow the U.S. practice of examining a sample of cars and then accepting the manufacturer's self-certification. Dealers of Japanese cars do not sell imported cars, as is commonly done here. As a result of all of these, no foreign auto maker has been able to break out of the vicious cycle of low volumes and high margins for overhead.

4/ Value-added taxes applied to tariffs raise their effective rate to 13-14 percent.

Mr. RUSSO. We thank the gentleman for his statement.

I have a couple of questions.

In the Ambassador's testimony, he refers to the fact that the unemployment rate in the automobile industry is now 9.5 percent and auto company profits, which have been $322 million in 1982 ran about $4 billion and that with give-backs given by the workers, those individuals are now getting reduced wages.

Would you respond to comments that things are much better today, that the economy is recovering and that is what is helping the auto industry and that this legislation would have an adverse effect on that recovery.

Mr. WARDEN. We would be glad to respond to that. First of all, we are pleased to the extent that there is a recovery in the auto industry. Make no mistake about that, and some of our members have been recalled back to work, and we are grateful for that.

But as I pointed out, we have roughly 200,000 workers who are still unemployed in the industry, and that is no small number. And when you take a look at the employment levels just a matter of 4 or 5 years ago and compare them with today, you can see what kind of slippage we have had in this industry.

As a matter of fact, when you read about the recovery, and we all read about it every day when we pick up our newspapers, you can almost say in some instances in certain regions of the country—such as your own State of Illinois, Mr. Chairman—you can almost say that that is a "workerless recovery" because many of the workers are not being called back to work. High profit margins and increasing sales do not necessarily mean that people are being called back to work in the same proportions that they might have been at an earlier time.

There are many reasons for that. Some of them are the outsourcing that is engaged in by the companies now, and this is what we are fearful about in the future, that more and more components and parts will be produced abroad and brought into this country, assembled in this country and sold as American made cars. That, in effect, exports jobs abroad.

Mr. RUSSO. Are we selling many parts overseas? Are other countries outsourcing the United States for our parts in their automobiles?

Mr. PRICE. Yes, sir, there has been an increase also in the last 10 years of U.S. exports of parts. This bill is designed to further that process. A company's domestic content takes into account all U.S. domestic production, not only when it is sold here, but also when it is exported. If a company wants to integrate its U.S. production base with the rest of the world, it can produce here and export outside and bring other imports in, for example, if a company has 50 percent content requirement, it can import 75 percent of what it sells here and make only 25 percent of what if sells here, but produce another 25 percent more here for exports to offset the imports, that way, the net would be enough production here for 50 percent of the value of what it sells here.

But the increase in exports of parts has not nearly kept up with the increase in imports of parts. That is what concerns us. Many times the loss of U.S. exports of parts are the result of other governments having an active auto policy. As long as the United

States doesn't have a policy, then we are going to be cut out of the game. Brazil, Mexico and other countries are forcing exports of a lot of parts this way, and we are doing nothing to counteract that with a policy here.

If I could go back to one of the specific numbers you raised in the previous question about the 9 percent unemployment in the auto sector, that is a spurious number. Although the BLS Commissioner Janet Norwood, gave that number in her recent report, in fact that 9 percent is the ratio of the number of people who say their last job was in auto and don't have a job now and are looking for work compared to the number of people who do have an auto job.

If you take 9 percent of the number of people who do have a production job in the auto industry, 577,000, that implies that they count less than 60,000 people as unemployed from the auto industry.

Mr. RUSSO. What would your figure be on the unemployed?

Mr. PRICE. It is at least 180,000, probably 200,000.

Mr. RUSSO. What would the percentage of that be?

Mr. WARDEN. That would be 25 percent.

Mr. PRICE. There were roughly 800,000 auto production jobs 4 years ago, and now less than 600,000. The drop is over 25 percent. The Labor Department figures are so low for two reasons. One is they don't count people who dropped out of looking for work. If they live in a predominantly auto community with such terrible economic situations, many are no longer looking for work. Where there is 20 percent unemployment, that means there is one person looking for a job for every four people who do have a job. There is a limit to how many people you can expect to keep looking for work under those conditions.

The other reason that number is so low is that people have taken part-time jobs or temporary jobs. The BLS no longer considers them auto workers. But if a decent auto job opportunity comes, they will take that job. So those are the two reasons that that 9 percent is so misleading compared to the drop in employment in auto and auto communities.

Mr. WARDEN. Mr. Chairman, you raised the question also about the recent negotiations and concessions and so forth. I think the headlines on some of the articles in the press recently have been slightly misleading in the sense that yes, we have renegotiated our contract with Chrysler for a 2-year period and there were some opportunities to regain some of what was conceded to the companies a couple of years ago. In about a year, however, contracts at GM and Ford will be reopened, and the negotiations will proceed and presumably those companies will be in better health. There will be an opportunity to regain some of the concessions that were made at those companies as well.

The point is that the Chrysler workers in this recent negotiation did not achieve parity and many of the newspaper headlines, I think, would lead a reader to believe that was the case. But even if they had, within a year, the GM/Ford contracts would reopen, and there would be disparity again. So the fact is there is not parity now, and the disparity will grow in another year.

Mr. PRICE. If I could also refer to another of the statistics that the Government witnesses made on the layoff situation. They said

that the number of people on layoffs has fallen by 125,000 to a number around 137,000. Anybody at Commerce knows that you have to have a consistent series; if you are going to compare two points in time, you have to use numbers computed on the same basis.

The fact is that that 137,000 number is not computed on the same basis as the higher figure a year ago. The current figure is much lower because General Motors is now reporting its layoffs differently. A year ago General Motors was reporting the number of people who had lost their job and hadn't been recalled. They included those who had lost their seniority rights.

In the recent months, they have been reporting a number that excludes people who have lost their seniority rights to go back to GM. So there hasn't been a 125,000 person improvement in the unemployment situation nor is the job reduction as low as 137,000. He has mixed apples and oranges to come up with those new numbers.

Mr. RUSSO. Are there any other questions of the panel?

If not, thank you, gentlemen.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. RUSSO. Next, we have Stephen Koplan, American Federation of Labor and Congress of Industrial Organizations.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. KOPLAN. Thank you, Mr. Chairman. I will not read the full text of my statement, but will summarize it for the record.

Mr. RUSSO. Your entire statement will be made a part of the record.

Mr. KOPLAN. The AFL-CIO welcomes this opportunity to support H.R. 1234, the Fair Practices in Auotmotive Products Act. This bill is designed to promote an efficient U.S. auto industry and the many U.S. supporting industries related to auto production.

H.R. 1234 is a job-creation bill whose effect can assure over 1 million jobs in this economy. The AFL-CIO urges its speedy enactment.

In each previous postwar recession, the lead of the auto and the housing sector have been keys to the overall economy. Therefore, to us, this legislation is of the greatest importance.

The AFL-CIO represents 13.7 million workers who are important to our society as breadwinners, consumers and taxpayers. Many of these members are in the automotive industry, directly or indirectly, and their jobs are affected by the massive imports of foreign-made automobiles, trucks, and parts.

Hundreds of thousands of jobs in rubber, steel, aluminum, glass, textiles, paper, electronics, and plastics—as well as directly in the auto industry—have been lost.

Since 1978, more than 211,000 workers in the auto industry sector classified as motor vehicles and equipment, SIC 371, have lost their jobs and another 506,000 jobs have been lost by suppliers to the auto industry. These lost jobs are in the primary metals, automatic stamping, tires and inner tubes, as well as various other industrial groups that supply the auto industry.

H.R. 1234 provides a strong response to the critical need for domestic content laws to reestablish a viable U.S. automobile industry. It is based on the concept that multinational auto companies—United States, French, German, or Japanese—should provide the United States with jobs and production—not just assembly jobs—when they enjoy the advantages of the U.S. market.

The proposal simply extends current U.S. domestic content requirement laws so that passenger cars and light trucks will be required to have a gradually rising percentage standard of American-produced parts.

Domestic content is not a new idea. For example, the United States has had domestic content provisions in the Energy Policy and Conservation Act of 1975, a 75-percent domestic content requirement for an automobile to qualify as domestically manufactured for purposes of determining average fuel economy.

Many countries such as Australia, Brazil, Mexico, South Korea, and Spain have domestic content requirements. The specter of foreign retaliation is often raised as an objection to U.S. auto content legislation. But there has been no retaliation in the cases of the above-listed countries.

Other nations have combinations of domestic content laws or other policies, such as high tariffs, quotas and/or embargoes, subsidies, and requirements for auto exports—plus, in some cases, export requirements for parts.

Most countries have more stringent requirements for assuring auto production in their countries in law and/or in practices than the United States. The attached table, appendix I, published by the House Ways and Means Trade Subcommittee in June 1980, gives a sense of the extent of this practice.

There have also been effective de facto content requirements in Western Europe that create an enormous advantage for producing there. Between members of the European Community and members of the European Free Trade Association—that is in most of Western Europe—there has been a duty-free transfer privilege for production within their borders, but a tariff on parts and cars from the outside—tariffs that are generally higher than those of the United States.

The effect encourages production in Europe. Many European countries also have quotas in gentlemen's agreements or other regulations to keep out a flood of Japanese car imports—particularly in France and Italy, and in Great Britain.

Relatively speaking, therefore, the United States has virtually no tariff and nontariff barriers on autos and parts in comparison to those of other countries.

The result of Japanese pratices is that Japanese cars can sell for less in the United States than they do in Japan, whereas U.S. cars sell for two to three times their U.S. selling price in Japan.

The United States has a 2.8-percent tariff and the rest of the world has tariffs from 7.6 percent to 205 percent—see appendix II. Under these circumstances, the incentive to produce abroad and flood the U.S. market is escalating.

Meantime, U.S. and foreign auto companies have become multinationals. They will continue to foreign source their parts and vehicles. For example, it was widely reported in the press this week

that General Motors Corp. wants Japan's current voluntary export quota limit of U.S. imports of cars raised from 1.68 million units annually to 1.98 million units annually so that General Motors can increase the number of cars it imports from its Japanese affiliates.

If General Motors succeeds in its efforts, it plans to import about 90,000 Suzukis and 200,000 Isuzus, which would be sold as 1985 subcompact models under General Motors' Chevrolet and Pontiac labels.

If left to follow this route, General Motors will simply outsource most of its subcompact vehicles. We expect that if General Motors succeeds in its efforts, Ford and Chrysler will soon follow the same route with their Japanese affiliates, Toyo Kogyo and Mitsubishi Motors.

The action requested by General Motors, ostensibly an American company, points clearly to the fact that the worldwide interests of U.S.-based multinational enterprises can be quite different from the interests of this Nation and its people. Thus, the legislation is necessary to emphasize our domestic interests and direct General Motors and other companies onto a path that is best for the United States.

H.R. 1234 does not stop all foreign sourcing. But the bill does limit the percentage of content that a company can foreign source to stem the outrush of parts production from the United States. Foreign sourcing already accounts for a great deal of U.S. auto manufacturers' purchases.

Without H.R. 1234, the bleak future for America's industry will be to have more and more parts production moved abroad and to make the United States a mere assembler of foreign-made parts. Unless that trend is reversed, drastic reduction in U.S. auto jobs and production will continue and ultimately cost the Nation its security as well as its technological future.

The provisions of the bill are designed to find a middle way—to assure a viable industry here, without stopping all multinational integration.

The content formula, therefore, is based on costs of U.S. automotive production for which a company is responsible as a percent of U.S. automotive sales. The bill requires all companies with annual sales of over 100,000 vehicles to locate some production in the United States, hire U.S. workers and buy auto parts here.

Content means the total U.S. cost of a manufacturing company's production at wholesale factory prices to dealers for all cars and light trucks sold in a year.

Both parts made by the company and parts purchased from other U.S. producers would be given credit as domestic value. Automotive exports count, along with the production sold in the United States. U.S. imports can continue.

The bill sets a ratio of content, depending upon the level of cars the company sells in the United States. It would be phased in gradually.

The bill also instructs the Secretary of Transportation to issue necessary regulations, monitor compliance and issue annual reports on local content. Penalties for failing to reach the content level would lead to a curb in allowable imports in the following year.

The American auto worker is just as productive as the Japanese auto worker, according to a study of the Japanese Productivity Council. Some adversaries of this bill argue that this bill would be inflationary.

Some administration officials have irresponsibly claimed the price of a car would rise $1,000. We see no evidence to support this claim.

Volkswagen currently produces in the United States at near or above the content level set within the legislation, and it remains competitive in the U.S. market. Other companies can do the same.

Further, these opponents of the bill ignore the inflationary thrust that would exist if we were totally dependent upon foreign producers, nor do they deal with the sharp decline in the value of the yen during the last 2 years, resulting in large part from high U.S. interest rates.

The result of passage of this bill would be that the changing technology of the auto industry could be absorbed. The rapidly escalating outrush of production would not lead to a complete destruction of this important American industry.

Instead, H.R. 1234 creates an opportunity for manufacturers from all nations to sell and produce cars here, employing U.S. labor and providing a multiplier effect on production and jobs in services in this economy.

This will benefit U.S. consumers who wish to continue to choose among a variety of cars, U.S. workers whose jobs consist of parts and assembly operations for motor vehicles, and for U.S. business which has a major stake in participating in the expansion, rather than the decimation of the American auto industry.

For these reasons, the AFL–CIO endorses H.R. 1234, a fair bill designed to take automobiles and related parts off the list of endangered U.S. industries. Its passage is bound to have a positive ripple effect on the U.S. economy.

Thank you, Mr. Chairman.

Mr. RUSSO. Thank you very much, Mr. Koplan.

Any questions?

Mr. VANDER JAGT. No questions.

Mr. RUSSO. Thank you very much.

Mr. KOPLAN. Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO welcomes this opportunity to support H.R. 1234, the Fair Practices in Automotive Products Act. This bill is designed to promote an efficient U.S. auto industry and the many U.S. supporting industries related to auto production. H.R. 1234 is a job-creation bill whose effect can assure over one million jobs in this economy. The AFL-CIO urges its speedy enactment. We note that the House held extensive hearings on this proposal last year and passed a similar bill by a wide margin. We hope that the additional hearings held this year will serve to expedite consideration of this measure in this session of the Congress.

Gentlemen, many times in the past the AFL-CIO has come before Congressional committees asking for Congressional help to save American industries and jobs. Too often the responses have been too little or too late or not at all. Year after year the strong, broadbased industrial machine that was America has been weakened and its workers displaced, not because these industries have become obsolete but because these industries have been overwhelmed by foreign trade practices.

Now we face an emergency situation of an industry that is basic to our economy and whose fate could decide whether this nation will recover from recession and regain its productive health or slide downward. In each previous post-war recession, the lead of the auto and the housing sector have been keys to the overall economy. Therefore, to us, this legislation is of the greatest importance. The AFL-CIO represents 13.7 million workers who are important to our society as breadwinners, consumers and taxpayers. Many of these members are in the automotive industry, directly or indirectly, and their jobs are affected by the massive imports of foreign-made automobiles, trucks and parts. Hundreds of thousands of jobs in rubber, steel, aluminum, glass, textiles, paper, electronics, and plastics -- as well as directly in the auto industry -- have been lost.

More than one million auto-related jobs have been affected by imports and the ripple effect is having a smothering effect on the U.S. economy.

Since 1978 more than 211,000 workers in the auto industry sector classified as motor vehicles and equipment (SIC 371) have lost their jobs and another 506,000 jobs have been lost by suppliers to the auto industry. These lost jobs are in the primary metals, automatic stamping, tires and inner tubes, as well as various other industrial groups that supply the auto industry.

The impact extends to all regions of the country and the total community in which affected workers once worked. Many are no longer taxpayers. Instead, they are receiving unemployment compensation and some are on the welfare rolls. This loss affects all Americans. It is inflicting a massive national toll as a financial burden on society, a tax-loss to the community, a loss of our industrial base and our defense-related capability. It adds to our rising trade deficit and destroys our "human" capital and skills.

At the AFL-CIO Convention in New York in November 1981, the delegates adopted a policy resolution on International Trade and Investment which stated in pertinent part:

> "Domestic content laws should be enacted to assure continued production of such products as autos. A U.S. production requirement is needed to preserve employment and skills and shore up the nation's sagging industrial base. Local content requirements in autos should be tied to sales volume and should be phased in beginning with the 1982 model year."

More recently the AFL-CIO Executive Council in February 1983 called upon Congress to enact:

> "The Fair Practices in Automotive Products Act, which would assure that the United States has an automotive products industry, including parts and components of cars. The bill, which passed the House of Representatives last year but did not come before the Senate, would provide that companies which sell large numbers of cars in the United States produce a fair share of the parts and components in the United States in order to provide jobs for American workers."

H.R. 1234 provides a strong response to the critical need for domestic content laws to reestablish a viable U.S. automobile industry. It is based on the concept that multinational

auto companies -- U.S., French, German or Japanese -- should provide the United States with jobs and production -- not just assembly jobs -- when they enjoy the advantages of the U.S. market. The proposal simply extends current U.S. domestic content requirement laws so that passenger cars and light trucks will be required to have a gradually rising percentage standard of American-produced parts.

Domestic content is not a new idea. For example, the U.S. has had domestic content provisions in the Energy Policy and Conservation Act of 1975 (a 75 percent domestic content requirement for an automobile to qualify as domestically manufactured for purposes of determining average fuel economy).

Many of the countries such as Australia, Brazil, Mexico, South Korea and Spain have domestic content requirements. The specter of foreign retaliation is often raised as an objection to U.S. auto content legislation. But there has been no retaliation in the cases of the above listed countries.

As the Japanese currently are targeting the aerospace industry for future development, All Nippon Airway in its purchase orders for new planes is reportedly requesting a certain percentage of the content be of Japanese origin. The U.S. has not retaliated against this action.

Other nations have combinations of domestic content laws or other policies, such as high tariffs, quotas and/or embargoes, subsidies, and requirements for auto exports -- plus in some cases, export requirements for parts.

Most countries have more stringent requirements for assuring auto production in their countries in law and/or in practices than the U.S. The attached table (Appendix I) published by the House Ways and Means Trade Subcommittee in June 1980 gives a sense of the extent of this practice. What the table does not show, however, is that there have also been effective de facto content requirements in Western Europe that create an enormous advantage for producing there. Between members of the European Community and members of the European Free Trade Association -- that is in most of Western Europe -- there has

been a duty-free transfer privilege for production within their borders, but a tariff on parts and cars from the outside -- tariffs that are generally higher than those of the United States. The effect encourages production in Europe. Many European countries also have quotas in "gentlemen's" agreements or other regulations to keep out a flood of Japanese car imports -- particularly in France and Italy, and in Great Britain.

Relatively speaking, therefore, the United States has virtually no tariff and non-tariff barriers on autos and parts in comparison to those of other countries. The Japanese, for example, have no tariff, but they have a high commodity tax (which they raised in April 1981), a national distribution system that stands in the way of imports, and an inspection system that means that every car entering Japan may be individually inspected. In 1981 and 1982, a plummeting yen meant that the unfair advantage of the Japanese was increased, as the yen has declined by about 15 percent since January 1981.

The result of Japanese practices is that Japanese cars can sell for less in the U.S. than they do in Japan, whereas U.S. cars sell for two to three times their U.S. selling price in Japan.

The U.S. has a 2.8 percent tariff and the rest of the world has tariffs from 7.6 percent to 205 percent (see Appendix II). Under these circumstances, the incentive to produce abroad and flood the U.S. market is escalating.

Meantime, U.S. and foreign auto companies have become multinationals. They will continue to foreign source their parts and vehicles. For example, it was widely reported in the press this week that General Motors Corporation wants Japan's current voluntary export quota limit of U.S. imports of cars raised from 1.68 million units annually to 1.98 million units annually so that General Motors can increase the number of cars it imports from its Japanese affiliates. If General Motors succeeds in its efforts, it plans to import about 90,000 Suzukis and 200,000 Isuzus which would be sold as 1985 subcompact models under General Motors's Chevrolet and Pontiac labels. If left to follow this route, General Motors will simply outsource most of its subcompact vehicles. We expect that if General Motors

succeeds in its efforts, Ford and Chrysler will soon follow the same route with their Japanese affiliates (Toyo Kogyo and Mitsubishi Motors).

The action requested by General Motors, ostensibly an American company, points clearly to the fact that the worldwide interests of U.S.-based multinational enterprises can be quite different from the interests of this nation and its people. Thus the legislation is necessary to emphasize our domestic interests and direct General Motors and other companies onto a path that is best for the United States.

H.R. 1234 does not stop all foreign sourcing. But the bill does limit the percentage of content that a company can foreign source to stem the outrush of parts production from the United States. Foreign sourcing already accounts for a great deal of U.S. auto manufacturers' purchases. The attached list of major components sourced between 1977 and 1981 (Appendix III) demonstrates how serious this problem has become. Without H.R. 1234, the bleak future for America's industry will have to have more and more parts production moved abroad and to make the U.S. a mere assembler of foreign-made parts. Unless that trend is reversed, drastic reduction in U.S. auto jobs and production will continue and ultimately cost the nation its security as well as its technological future.

The provisions of the bill are designed to find a middle way -- to assure a viable industry here, without stopping all multinational integration.

The content formula, therefore, is based on costs of U.S. automotive production for which a company is responsible as a percent of U.S. automotive sales. The bill requires all companies with annual sales of over 100,000 vehicles to locate some production in the United States, hire U.S. workers and buy auto parts here. "Content" means the total U.S. cost of a manufacturing company's production at wholesale factory prices to dealers for all cars and light trucks sold in a year. Both parts made by the company and parts purchased from other U.S. producers would be given credit as domestic value. Automotive exports count, along with the production sold in the United States. U.S. imports can continue.

The bill sets a ratio of content, depending upon the level of cars the company sells in the U.S. It would be phased in gradually. By model year 1987, if a multinational company

sells 100,001 vehicles in the U.S., it would have to produce or buy domestic production worth 10 percent of its auto sales here; 150,000, 15 percent; 200,000, 20 percent and 500,000, 50 percent, and 900,000, 90 percent. The bill provides that starting at sales above 100,000 a company divides its sales by 10,000, and that number is the resultant domestic content requirement up to a maximum of 90 percent.

The bill also instructs the Secretary of Transportation to issue necessary regulations, monitor compliance and issue annual reports on local content. Penalties for failing to reach the content level would lead to a curb in allowable imports in the following year.

The American auto worker is just as productive as the Japanese auto worker, according to a study of the Japanese Productivity Council. Some adversaries of this bill argue that this bill would be inflationary. Some Administration officials have irresponsibly claimed the price of a car would rise $1,000. We see no evidence to support this claim. Volkswagen currently produces in the U.S. at near or above the content level set within the legislation, and it remains competitive in the U.S. market. Other companies can do the same. Further, these opponents of the bill ignore the inflationary thrust that would exist if we were totally dependent upon foreign producers, nor do they deal with the sharp decline in the value of the yen during the last 2 years, resulting in large part from high U.S. interest rates.

The result of passage of this bill would be that the changing technology of the auto industry could be absorbed. The rapidly escalating outrush of production would not lead to a complete destruction of this important American industry. Instead, H.R. 1234 creates an opportunity for manufacturers from all nations to sell and produce cars here, employing U.S. labor and providing a multiplier effect on production and jobs in services in this economy.

This will benefit U.S. consumers who wish to continue to choose among a variety of cars, U.S. workers whose jobs consist of parts and assembly operations for motor vehicles, and for U.S. business which has a major stake in participating in the expansion, rather than the decimation of the American auto industry.

For these reasons, the AFI-CIO endorses H.R. 1234, a fair bill designed to take automobiles and related parts off the list of endangered U.S. industries. Its passage is bound to have a positive ripple effect on the U.S. economy.

Attachments:
Appendix I
Appendix II
Appendix III

APPENDIX I—Survey of Automotive Trade Restrictions Maintained by Selected Nations

Compiled by the Office of International Sectoral Policy, U.S. Department of Commerce from information supplied by U.S. Embassies, Commerce country analysts, and industry sources. The accuracy of the information received has not been verified.

Summary of Foreign Automobile Trade Restrictions 1/

Country	Local Content Requirements	Import Restrictions 2/	Export Requirements	Operations: Japanese	Operations: United States
Algeria	No	Yes	No		
Argentina	Yes	Yes	Yes	Yes	Yes
Australia	Yes	Yes	No	Yes	Yes
Austria	No	Yes	No		Yes
Belgium	No	Yes	No		Yes
Bolivia	Yes	Yes	No		
Brazil	Yes	Yes	Yes	Yes	Yes
Chile	Yes	Yes	Yes		Yes
Colombia	Yes	Yes	Yes		Yes
Denmark	No	No	No		
Ecuador	No	Yes	No		Yes
Egypt	Yes	Yes	No		
France	No	Yes	No		
Germany	No	No	No		Yes
Ghana	No	Yes	No		Yes
Greece	Yes	Yes	No	Yes	
India	Yes	Yes	No		
Indonesia	Yes	Yes	No	Yes	Yes
Israel	No	Yes	No		Yes
Italy	No	Yes	No		
Japan	No	No	No		Yes
Kenya	No	Yes	Yes	Yes	Yes
Kuwait	No	No	No		
Malaysia	Yes	Yes	No		
Mexico	Yes	Yes	Yes	Yes	Yes
Morocco	Yes	Yes	No		Yes
Netherlands	No	Yes	No		
New Zealand	No	Yes	No	Yes	Yes
Nigeria	Yes	Yes	No		
Norway	No	Yes	No		
Pakistan	Yes	Yes	Yes		Yes
Peru	Yes	Yes	No	Yes	Yes
Philippines	Yes	Yes	Yes	Yes	Yes
Portugal	Yes	Yes	No	Yes	Yes
Saudi Arabia	No	No	No		
Singapore	No	Yes	No	Yes	Yes
South Africa	Yes	Yes	No	Yes	Yes
South Korea	Yes	Yes	Yes		
Spain	No	Yes	No		
Sweden	No	No	No		
Switzerland	No	No	No		
Taiwan	Yes	Yes	No		
Tanzania	No	Yes	No		
Thailand	Yes	Yes	No	Yes	Yes
Turkey	Yes	Yes	Yes		Yes
United Kingdom	No	Yes	No		Yes
Uruguay	Yes	Yes	No		Yes
Venezuela	Yes	Yes	Yes	Yes	Yes
Yugoslavia	Yes	Yes	No		

1/ The measures cited in this chart are for new cars. Trade restrictions on used cars are not reflected.

2/ Import restrictions apply to non-tariff measures maintained by a country which deal solely with imports. Tax measures which apply to both imports and domestically produced products are not included.

Industrialized Countries Surveyed

Australia: A local content requirement of 95 percent is in effect. However, under the Export Facilitation Scheme, due to commence on March 1, 1982, Australian car manufacturers would be allowed to credit exports against local content requirements. These credits will increase from 5 percent in 1982 to 6.25 percent in 1983 and 7.5 percent in 1984 and can be used to import components duty free. The effect would be to reduce the local content requirement to 75 percent by 1984. Australia maintains a quota limiting imports of assembled vehicles to 20 percent of the existing market. There are import tariffs of 35-57.2 percent depending on stage of assembly. No export incentives exist. General Motors, Ford, Chrysler, Toyota and Nissan produce vehicles in Australia.

Austria: No local content regulations or export requirements are in effect in Austria. The automobile import duty is 20 percent. The value added tax (VAT) on automobiles is 30 percent. Steyr-Daimler-Puch (S-D-P) produces mopeds, trucks, busses and tractors. General Motors will shortly begin production of automobile engines and transmissions. S-D-P and BMW will soon produce diesel automobile engines.

Belgium: No local content regulations or export requirements are maintained by Belgium. There are reportedly quantitative restrictions on imports from Japan, Taiwan, South Korea, Indochina, and Eastern European countries. The import tariff on automobiles is the EC's 10.9 percent common external tariff. A 25 percent value added tax is levied on all automobiles sold in Belgium. Ford, GM, British Leyland, Peugeot-Citroen, and Volvo assemble cars and trucks, while Renault and Volkswagen assemble only automobiles in Belgium.

Canada: U.S.-Canadian auto trade is conducted under the terms of the Automotive Parts Trade Agreement (APTA). This trade is duty free. Canada has a 14.2 percent import duty on imports of non-U.S. cars and trucks and has safety and emission requirements similar to the United States. There are no local content requirements or quantitative restrictions. Chrysler, GM, Ford, AMC and Volvo have manufacturing facilities in Canada.

Germany: There are no restrictions on automobile imports except the 10.9 percent EC common external tariff. A 70.25 percent VAT is levied.

France: There are no local content regulations or export requirements. Imports of Japanese automobiles have never risen to over 3 percent of the market and the French government has announced that it does not want them to exceed this level. The EC's 10.9 percent automobile tariff applies. There is a 33.3 percent VAT. General Motors and Ford produce components in France.

Germany: There are no local content, export requirements, or quantitative limitations. Germany applies the EC's 10.9 percent common external tariff on automobiles and has a 13 percent VAT. Germany maintains rigid safety and emissions standards. In addition, there is a graduated motor vehicle tax based on horsepower. General Motors and Ford have manufacturing/assembly plants.

Italy: No local content regulations or export requirements exist. Italy applies the EC's 10.9 percent common external tariff on automobiles. Italy has formal quantitative restrictions on vehicle imports from certain Far Eastern (1980 allotment from Japan is 2,200 cars) and Eastern European countries. In addition, Italy's strict safety standards make certification of imported automobiles difficult to obtain. The automobile import duty is 10.9 percent. A VAT varying from 18-35 percent depending on engine size is applicable to all automobile sales.

Japan: Japan maintains no local content requirements or quantitative restrictions or import duties on automobiles. There is a 15 or 20 percent commodity tax levied on automobiles depending on engine size and on overall auto dimensions, and an annual automobile tax which also increases by engine size. The mechanical safety and environmental modifications required to comply with Japanese stringent vehicle regulations have discouraged imports. Additional disadvantages to American automobiles include the higher dealer margins and a complicated multi-layered distribution system.

Netherlands: The Dutch vehicle manufacturing industry is relatively small. DAF a Dutch firm, manufactures commercial and military vehicles. Volvo produces passenger cars and there are a number of smaller Dutch bus and trailer manufacturers. The tariff on automobiles is 10.9 percent for imports of automobiles from the U.S. into the EEC. There is an 18 percent value-added tax. Additionally, manufacturers or importers of passenger cars have to pay a special consumption tax of 16 or 17 percent. Imports are not subject to any special import licenses or quantitative restrictions.

New Zealand: There are no specific regulations dictating the amount of local content in automobiles assembled in this country. However, an import licensing system mandates the use of local components. Tariffs for completely built up autos (CBU) are: 55 percent for general tariff; 20 percent for Australia and the U.K.; and 33.3 percent to 55 percent for Canada depending on the level of Commonwealth country content. Import tariffs for completely knocked down (CKD) units are: 45 percent general tariff rate; preferential rates of 6.25 percent for Australia and the U.K., and 19.75 percent to 45 percent for Canada depending on the level of Commonwealth country content. Certain Australian CKD autos are duty free and certain CKD autos are subject to a 10 percent duty under terms of the New Zealand Australian Free Trade Association. Licenses are required to import CKD cars but are, in effect, obtained automatically by assemblers. Licenses for CBU units are strictly controlled and currently maintained at a level of approximately 4 to 5 percent of the total annual sales of 65,000 to 70,000 units. Ford, General Motors, Chrysler, Toyota, British Leyland, Honda, Mazda, Skoda, Subaru, Datsun, Mitsubishi, and Talbot (Peugeot) have local assembly plants.

Norway: There are no local content regulations or vehicle import restrictions. Automobile import tariffs are 7.4 percent with an additional vehicle tax varying from 68-153 percent of the vehicle value. There is no automobile production in Norway.

Spain: Local content requirement for vehicles assembled in Spain is 95 percent. There are no import quotas. The import tariff for non-EC/EFTA source vehicles is 40 percent with a compensatory import tax of 13 percent. Luxury tax varies between 17.6-35 percent depending on horsepower of vehicle. Fiat, Renault, Citroen, Peugeot, Ford, General Motors have assembly operations in Spain.

Sweden: There are no local content regulations. There is a 9 percent CIF import tariff on passenger cars and a 20.63 percent VAT on the duty paid value. There are apparently nonrestrictive import licenses, as well as stringent safety and emission standards. Swedish producers receive a rebate of all duties paid on imported components incorporated in a car which is exported. Only Saab and Volvo manufacture in Sweden.

Switzerland: Tariffs on passenger vehicles imported into Switzerland from the U.S. range from Swiss Francs 79.62 to 134.50 per 100 kilograms gross. Swiss impose duties on weight rather than on value. Substantially lower tariffs have been accorded to EC and EFTA suppliers. In addition, a turnover tax of 8.4 percent ad valorem is levied. No quantitative import restrictions are maintained; however, at time of registration of an imported vehicle in Switzerland, the U.S. made product must conform with the Swiss Regulations on Construction and Equipment of Motor Vehicles, amendments to which became effective on January 1, 1980. The objectives of the amendments are to reduce gradually noise level limits by October 1, 1982 and 1986, respectively. Swiss-made trucks and jeeps are manufactured and assembled at Arbon in the Canton of Thurgau.

United Kingdom: There are no local content regulations or export requirements. The import tariff on automobiles is the EC's common external tariff of 10.9 percent. It has been publicly reported that imports from Japan are voluntarily limited by the Japanese manufacturers to approximately 10 percent of the market. British Leyland, Ford, GM, and Peugeot-Citroen manufacture in the U.K. In addition there are numerous small, specialty firms. Current plans are for British Leyland to manufacture Honda designed automobiles in the near future.

Developing Countries Surveyed

The Andean Pact's Automotive Program

In 1977 the five Andean Pact members (Bolivia, Colombia, Ecuador, Peru, Venezuela) signed an agreement calling for the production of vehicles based on local componentry, with local content eventually reaching 70 percent. According to the Pact's schedule, the program will be in effect by the end of 1983. However, due to disagreements by Pact members as to who would produce certain types of vehicles and, even more importantly, key components such as engines, progress in implementing the program has been slow.

A Common External Tariff is to give protection against non-pact vehicles, 115 percent in the case of passenger cars similar to those to be produced in the Andean region and 155 percent for cars other than those produced there.

The following companies have signed agreements to participate in the program: General Motors, Volkswagen, and Fiat; other companies that are considering participating are: Ford, Renault, Mack Trucks, Nissan, Pegaso, and Volvo. In addition to these general provisions, member countries have the following specific rules:

Bolivia: There are no vehicle manufacturing or assembly operations in Bolivia.

Colombia: A 33 percent local content regulation is maintained on firms which assemble automobiles from imported components. Imported automobiles are assessed a 150 percent duty, a 15 percent sales tax, a 5 percent export promotion fee, a 1.5 percent export diversification fund tax, and a 1 percent consular invoice fee. There are no quantitative restrictions, but import licenses are used to restrict imports. Renault produces passenger cars. GM produces automobiles, trucks and van chassis. Fiat produces cars, trucks and buses.

Ecuador: There are presently no local content restrictions or export requirements in Ecuador. Import duties on automobiles range from 100 percent to 190 percent depending on price; on trucks and vans duties are 90 percent or 100 percent depending on type and capacity; and on four wheel drive vehicles they are 60 percent or 70 percent depending on price. In addition, an import surcharge of 70 percent on the c.i.f. value is applied to all motor vehicle imports except trucks. On all items, importation requirements call for a 1 percent service charge and a 90 percent prior deposit, both on the c.i.f. value. Importers are required to prepay 80 percent of the import duties before the import license is received. This license is issued by the Ministry of Industries, Commerce and Integration. In addition to the overall quota, each automotive dealer or distributor is assigned an individual quota. This is computed on the basis of past imports, and therefore, it varies for each distributor/dealer. Newly established dealers are assigned a quota of $40,000 per each six months.

Ecuador has begun to implement its ANCOM (Andean Common Market) assigned rights to manufacture: (1) light passenger cars and engines of 1050-1500 cc. motor size, and (2) light trucks and transmissions of 1.0-4.6 metric tons capacity. The Ecuadorean Government and Volkswagen signed a contract in December 1978 for the production of a passenger car. General Motors is carrying out feasibility studies for the production of light trucks.

Peru: Local content regulations require 10-35 percent local content depending on vehicle type. Although built up vehicle imports have been prohibited to date, reports are that import licenses will be obtainable in 1980. Import tariffs are 60 percent on trucks and 155 percent on automobiles. There is a 14.4 percent manufacturers tax. Exports are encouraged by rebating the import duties paid on imported components in the exported vehicle. Chrysler, Volkswagen, and Nissan assemble cars and trucks. Toyota assembles cars and Volvo assembles trucks.

Venezuela: Local content regulations call for annual increases from 48 percent currently to 90 percent in 1985. Imports are restricted to vehicle types produced locally. The tariff on imports is 120 percent on Venezuelan Government reference price. Export requirements are based on a percent of the value of national automobile production and in some instances they are quantitative requirements written into the assembler's contract. In addition to three local firms, Renault and Volkswagen assemble cars; Fiat, GM, and Ford assemble cars and trucks; Mack and International assemble trucks; and AMC and Toyota assemble jeeps.

According to press reports, the Venezuelan Economic Cabinet approved a new automobile import policy on April 24, 1980. Now prohibited is the importation of 4-cylinder models (except by the government). All other models not produced in the country could be imported without license upon payment of ad valorem duty of 100 percent and a specific duty of 100 Bolivars per kilo. Models similar to those produced in Venezuela would pay an ad valorem duty of 120 percent only. Vans and 4-11 passenger vehicles would pay 135 percent ad valorem and 100 Bolivars per kilogram specific duties. Effective date of this new measure will presumably depend on publication of corresponding decree in the official gazette with new list of reference prices for 1980. Last year this took place on June 1st.

Other Developing Countries

Algeria: There are no automobile manufacturing assembly operations in Algeria. Unspecified quantitative restrictions on automobiles are in effect. Import duties on automobiles range from 40-50 percent.

Argentina: Local content regulations exist for all vehicles as follows: passenger - 93 percent in 1980, reduced to 88 percent in 1982; commercial - from 93-90 percent in 1980, reduced to 75-38 percent in 1982. Import tariffs on vehicles are 95 percent on cars (declining to 45 percent in 1982) and 45 percent on trucks (declining to 40 percent in 1982). Minimum import prices are $4 per cubic centimeter engine displacement plus 7 percent freight on cars. Export requirements apply only to intercompany parts shipments. Under this requirement exports must be 1 times the import level. Ford, Volkswagen, Fiat-Peugeot, Mercedes-Benz, and Saab have manufacturing facilities in Argentina.

Brazil: Local content regulations are in effect but are now individually negotiated with each firm with factors such as the individual firms balance of payments being taken into account.

Export incentives in the form of reduced import tariffs on parts are granted (under GATT these are being phased out). Imports of automobiles are currently embargoed. Normally, import tariffs on passenger cars are from 185 percent to 205 percent. In addition there is a system of minimum import values based on the car's weight. Passenger cars are produced in Brazil by Ford, GM, Volkswagen, Chrysler, Fiat, and Fiat. Trucks are manufactured by Ford, Chrysler, GM, Mercedes, Fiat, Saab, Volvo, and Toyota.

Chile: Local content regulations requiring 70 percent of assembled cost for automobile manufacturers are in force. Exports are not required unless local content is less than 70 percent. In this case the local assemblers must export sufficient products to reach 70 percent of local production costs. Import tariffs on automobiles range from 17-90 percent depending on engine displacement. The 80 percent tariff rate reduction was to reach a final rate of 10 percent in 1984. There is a 10 percent consumption tax if an automobile's CIF value plus duty, plus a 20 percent VAT exceeds $12,000. This consumption tax only applies to the amount over $12,000. There are no quantitative restrictions. GM assembles automobiles and trucks. Citroen, Fiat, and Peugeot-Renault assemble automobiles.

Egypt: Local content regulations vary by contract with each assembler. Fiat has a joint venture for automobiles with 30 percent to 40 percent local content required and AMC Jeeps are assembled with a 15-20 percent local content. There are no export requirements. Import duties vary from 85 percent to 700 percent depending on engine size and number of cylinders. Individuals are allowed to import only one car every two years and the importation of right hand drive cars is forbidden. Payment of import duties must be made in hard currency.

Ghana: There are no local content regulations or export requirements in Ghana. A purchase tax which varies from 5 percent to 100 percent based on the car's value encourages local production. Commercial vehicles assembled in Ghana do not pay this tax. Under the vehicle standardization policy in effect since October 1, 1979, only vehicles - passenger cars, pick-ups, cross country vehicles, and buses - manufactured by approved manufacturers may be imported. The list includes Peugeot, Datsun, Volkswagen, Renault, Mazda, and Mack Trucks. Cars for diplomats and Ghanaian officials are exempt from this requirement. Renault and Toyo Kogyo assemble cars. Nissan, Toyota, and Vauxhall assemble cars and buses. British Leyland, Ford, and Mercedes-Benz assemble buses and trucks. Chrysler, Deutz, Hino, M.A.N., and Mack assemble trucks. Neoplan assembles buses. Import tariffs range from 15 to 95 percent.

Greece: The value added component requirement imposed on local motor vehicle assembly is a minimum of 25 percent without mandatory upward escalation. Tariffs on imports from non-EEC countries range from 18 to 20.7 percent. In November 1979, a voluntary system designed to restrain imports was adopted providing for a reduction of 20 percent in car imports. Bus imports require an import license. The issuance of licenses is, at times, delayed or withheld. A pre-import cash deposit of 56 percent for buses and 28 percent for passenger automobiles is also required. The deposits are retained by the government for two months.

India: Local content regulations exist only for the domestic Indian automobile producers. There is no investment by foreign automobile manufacturers. Exports are encouraged by cash subsidies and import replenishment licenses. Import tariffs on other vehicles vary from 100-160 percent depending on type and axle weight. Import licenses are generally not issued for passenger cars and those for commercial vehicles are issued on a limited basis.

Indonesia: Progressively stringent local content regulations are being instituted in the motor vehicle industry although lags in component manufacture are slowing implementation. While the Government hoped to achieve full local manufacture of components for the most popular types of passenger and light commercial vehicles by 1984, it has extended this deadline until an unspecified date for components not yet manufactured in Indonesia or not manufactured in sufficient quantity. Presently all passenger vehicles, and all commercial vehicles imported into Java and Sumatra, are to be imported completely knocked-down. Import tariffs on built-up passenger vehicles range from 30 percent plus a 10 percent sales tax on jeeps to 270 percent plus a 20 percent sales tax on passenger cars. There are no export requirements or quantitative restrictions. Local assembly plants produce the following makes of passenger cars: Suzuki, Datsun, Mitsubishi, Land Rover, Holden, Isuzu, Volkswagen, Mercedes, Mitsubishi, Renault, Peugeot, Alfa Romeo, Bmw, Dodge, Fiat, Opel, Steyr, Citroen, Berliet, Moskvitch, Subaru, Volvo, Ford, Toyota, Honda, Chevrolet, Vauxhall, Morris, Daihatsu, and Mercedes-Benz.

Israel: There are no local content or export requirements maintained by Israel. Import duties are from 40 percent plus 2.50 shekels per kilogram for automobiles with engines 1,900 cc and less and 52 percent plus 3.25 shekels per kilogram for cars with engines 1,801 cc and larger. In addition, there is a purchase tax based on engine size which ranges from 85 percent to 150 percent plus a 5-7 percent import price uplift. These are assessed on a cascade basis. There are quantitative requirements attached to import licenses which are only granted to approved importers. Three Israeli firms assemble Ford cars: Ford, Dodge, Reo and Mack Trucks and AMC Jeeps. One local firm produces its own brand of trucks and passenger cars.

Kenya: No local content regulations exist but components manufactured locally may not be imported. Commercial and certain other vehicles are permitted to be imported only completely knocked-down. There are no export requirements. An import license accompanied by a 100 percent refundable prior import deposit is required. Import duties (CIF) on assembled passenger cars (other than public service-type vehicles) range from 40 percent for cars with an engine capacity not exceeding 1,300 cc, 75 percent for cars with a 1,751-2,000 cc engine capacity, to 150 percent with an engine capacity exceeding 2,240 cc. The duty on non-public service passenger cars, unassembled, for assembly into complete vehicles by an authorized assembler is 75 percent. Importers have been directed to grant 90-180 days credit overseas. The four authorized assemblers are Leyland Kenya Limited, General Motors Limited, Associated Vehicle Assemblers Limited and Fiat Kenya Limited. GM assembles Isuzu and Bedford trucks, British Leyland assembles trucks, Landrovers, Volkswagen microbuses and Mitsubishi light buses. Associated Vehicles assembles Datsun cars and buses, Peugeot trucks, Toyota trucks, Ford trucks, and Volvo trucks.

Import protection is accorded to local producers of the following automotive components: sealers, adhesives, batteries, tires, tubes, paints, flat glass, carves, soft trim, upholstery, insulation, radiators, exhaust systems, leaf springs, spare wheel carriers, seat frames, wiring harnesses and brake linings.

Kuwait: There are no general restrictions on vehicle imports. A 4 percent ad valorem import tariff is in effect.

Malaysia: Under the ASEAN Automotive Federation (AAF) scheme for complementary ASEAN production, Malaysia will produce timing chains for cars and spokes, nipples, and roller chains for motorcycles. Trade preferences by other ASEAN members would be granted these parts. Probably no further accreditation of additional capacity for the same product would be allowed until the ASEAN Committee on Industry, Minerals, and Energy determined that the market had expanded sufficiently to warrant further accreditation of similar projects.

Mexico: Local content regulations requiring 70 percent for passenger cars and 80 percent for trucks exist with a planned 5 percentage point increase of both in 1981. Imports of components are required to be offset by exports. Vehicle import duties range from 75 to 100 percent ad valorem. Vehicle imports are not allowed with the exception of a special customs zone near the U.S. border. Exceptions are usually only made if there is a shortfall in domestic supply. Chrysler, Volkswagen, Ford, GM and Nissan manufacture/assemble cars and trucks. American Motors produces cars and jeeps. Renault produces cars.

Morocco: Local content regulations requiring 40-50 percent levels are in effect. All vehicle imports are restricted. All assembly operations are in part or totally Moroccan-owned. Through this system, Fiat, Opel, Simca, and Renault automobiles are assembled in Morocco. Peugeot, Volvo, Bedford, Ford, DAF, Landrover, and Jeep utility, and industrial vehicles are assembled.

Nigeria: A 30 percent local content regulation is imposed after three years of assembly. Vehicle imports are restricted by import licenses and passenger vehicles with engines over 2,500 cc are prohibited. Passenger vehicles with smaller engines face duties of 50 to 250 percent. Volkswagen manufactures/assembles cars and minibuses. Peugeot manufactures/assembles cars. British Leyland manufactures/assembles trucks and Landrovers. Steyr manufactures/assembles trucks. Mercedes and Fiat will shortly begin to manufacture trucks and Nissan will start manufacturing automobiles.

Pakistan: There are no local content regulations as such but current use of locally produced components is encouraged by regulation and is reported to range from 25-40 percent of value depending on vehicle type. Projected use of local products is reported to be about 90 percent by 1985. Exports and imports are controlled. Commercial vehicle imports are prohibited. Imports of built up passenger vehicles are dutiable (75-150 percent ad valorem) depending on engine size. A state-owned corporation has a monopoly over the automobile industry. It has assembly arrangements with AMC (jeeps), Chrysler (trucks), GM (Isuzu trucks) Vauxhall (trucks and buses), Ford (minibuses), Suzuki (vans and pickups), Nissan (trucks), Toyo Kogyo (buses), Sumitomo (trucks), and Hino (trucks). This acronym (PACO) controls the import of both completely knocked down and completely built up vehicles. Completely built up imports are limited to those being brought in by returning expatriate Pakistanis (4 months or more continuous stay overseas).

Philippines: The current local content regulations requirement is 41.5 percent. The import tariff rate varies from 10-70 percent for completely knocked down vehicles to 100 percent for assembled vehicles. There are three local automobile companies. One assembles Mitsubishi products and one assembles Volkswagens. The other assembles its own vehicles (the Tamaraw utility vehicle, a mini cruiser military vehicle and various trucks). Ford has a body stamping plant and automobile assembly facilities. GM assembles cars and trucks, and manufactures transmissions.

Portugal: Local content regulations for vehicles assembled in Portugal are 22 percent in 1980 declining to zero in 1985. Current import quotas for completely knocked down and completely built up vehicles are scheduled to end in January 1985. Import duties for non-EC/EFTA source vehicles is approximately 4.5 U.S. cents per kilogram. Import quotas are scheduled to be phased out by 1985. GM, Ford, Renault, Citroen, Alfa Romeo, British Leyland, Peugeot, Talbot, Audi, BMW, Mercedes, Volkswagen, Toyota, Nissan, Mazda, Isuzu, Honda, and Daihatsu have assembly operations in Portugal.

Saudi Arabia: There are no local content regulations or import restrictions. The import tariff is 7 percent of CIF value. Mercedes assembles trucks. A Saudi firm assembles buses using American-made chassis. The Saudi Arabian Government provides a subsidy to the National Company for Car Manufacturing, located in Jidda, in the form of an interest-free loan.

Singapore: There are no local content regulations or quantitive restrictions on vehicle imports. Import tariffs are 45 percent. There is a 150 percent additional registration fee, a $1,000 base registration fee for private and rental cars ($5,000 on company cars), and scaled road taxes. Mercedes, Ford, British Leyland and Volvo produce cars. Nissan produces vans.

South Africa: Passenger cars must contain 66 percent by weight local content. Starting in 1980, the local content regulations have been extended to light goods vehicles (approximately up to 7,000 pounds). The 1980 and 1981 requirements for these are 50 percent by weight. By 1987 these too must meet the requirement of 66 percent. Import licenses are required, but are granted to meet the full and reasonable requirements of components and subassemblies for passenger and light goods vehicles covered by a currently valid manufacturing program approved by the Minister of Economics. There are no export requirements. Fully manufactured cars may be imported without a license, but the duty is 100 percent. Excise tax for cars with less than 66 percent local content is 9 percent. For those with 66 percent local content, the excise duty per Rand value is a maximum of 12 Rand cents. There are excise duty decreases for percentages of local content achieved beyond the minimum 66 percent.

Nissan, Fiat, Ford, GM, British Leyland, Mercedes, Volkswagen, Sigma, and ICCO produce automobiles and trucks. Alfa Romeo, BMW, and Peugeot produce autos. Toyota South Africa produces its own brand of autos and trucks and assembles Renault autos and trucks.

South Korea: There are four auto manufacturing companies in Korea - Kia, Hyundai, Saehan, and Shin Jin. The first three companies also manufacture buses, and two - Hyundai and Saehan - manufacture trucks.

The tariff rate for automobiles is 90 percent.

Automobiles and auto components are on the "Restricted List", meaning prior approval of the Auto Trade Association is required before an import license can be issued. With regard to 100 percent foreign-made cars, the Association will issue import licenses depending on the "supply and demand situation" in Korea; however, such licenses are rarely approved.

Local content requirements are set by the Korean government for domestic manufacture and assembly of all cars, trucks, and buses. Those for cars, effective January 1, 1980, are as follows:

Maker	Type of vehicle	Local content requirement (Percent)
Kia	Brisa	94
"	Brisa II	92
"	Fiat 132	62
"	Peugeot 404	20
Hyundai	Pony	91
"	Cortina Mark IV	62
"	Granada	21
Saehan	Gemini	98
(Cars)	Rekord	65
Shin Jin	Jeep (2-5)	93
"	Diesel Jeep	91

There are no specific export requirements per se for Korean auto manufacturers, although there are export targets and some moral pressure to meet those targets. According to the Korean auto industry association, however, there is one stipulation imposed on Hyundai and Kia: in order to obtain permission to import one knocked down Ford Granada or Peugeot 604 for local assembly and sale, the companies must export five domestically manufactured passenger cars.

Taiwan: Current local content requirement for vehicles is as follows: automobiles (including sedans, wagons and jeeps of 3.9 tons and below): 70 percent with proviso that manufacturer must produce one of the following components: (1) engine, (2) piston, connecting rod, and piston pin, (3) crankshaft, (4) axle transmission, (5) spring, (6) cylinder valve. Light motor vehicles (including truck, pick-up, and station wagon of 3.9 tons and below): 70 percent with proviso similar to sedans. Import duties on automobiles are from 65 percent to 75 percent depending on type.

Tanzania: No local content regulations exist. Imports are limited almost entirely to the government. Import tariffs vary from 40-100 percent depending on engine size. Except for trucks, the only automobile assembly operation is by British Leyland.

Thailand: Local content regulations requiring 75 percent local sourcing by August 1980 increasing annually to 50 percent in 1983 are in effect. Imports of built up passenger cars are prohibited. Duties of 150 percent are levied together with a 40 percent business tax on imported automobiles. Toyota, Nissan, Isuzu, and Ford produce cars, trucks and buses. Hino produces trucks and buses. Fiat, British Leyland and Volvo produce cars and buses. Mitsubishi, Mazda, Daihatsu, Subaru, GM, Volkswagen, Peugeot, Renault, BMW, Alfa Romeo, Citroen, Lancia, and Audi produce cars.

Turkey: Local content regulations are contained in the "Assembly Industry Regulation" enforced by the Turkish Ministry of Industry and Technology. Locally produced items are not permitted to be imported. Therefore, importation of automobiles is not permitted except under special circumstances. Import tariffs are 175 percent. Automobiles are produced under license from Ford (the Reliant Motor Company of U.K.), Fiat and Renault.

Uruguay: Local content regulations are in effect requiring local content of 25-32 percent of vehicle weight. Imports of automobiles are prohibited. Export regulations require the export of 40-105 percent (depending on vehicle type) of the import value of the completely knocked down kits the assembler imports. Peugeot-Citroen, Renault, Volkswagen, BMW, Ford, GM, and Fiat assembly automobiles in Uruguay.

Yugoslavia: Local content regulations require 50 percent local content to avoid imposition of higher sales taxes. Imports from other countries are only permitted by authorized dealers. Import tax on vehicles is 1% percent ad valorem and the duty is 25 percent. Authorized dealers are required to export goods totaling 30 percent of the value of each imported automobile. Quotas are maintained on imports from the USSR, East Germany, and Czechoslovakia and may be paid for in local currency. Other imports must be paid for in hard currency. Fiats, Ladas, Volkswagens, Audis, and Citroens are manufactured locally.

APPENDIX II

FOREIGN SOURCING

Partial List of Known 1977-81 Commitments By Major U.S. Automobile Manufacturers to Purchase Foreign-Made Major Components For Use in Domestic Nameplate Vehicles

Manufacturer	Component	Intended For	Source	Approximate Number of Components	Delivery Beginning
GM	2.8 liter 6 cyl	Cars	GM de Mexico	400,000/year	1982
	2.0 liter 4 cyl with transmission	Mini trucks	Isuzu (Japan)	100,000/year	1981
	1.8 liter diesel 4 cyl	Chevette	Isuzu	Small numbers	1981
	1.3 diesel 4 cyl	S-Cars	Isuzu	N.A.	1983
	1.8 liter 4 cyl	J-Cars	GM de Brazil	250,000/year	1979
	THM 180 Automatic transmission	Chevette	GM Strasburg (France)	250,000/year	1979
	Manual transmissions	J-Cears	Isuzu	250,000	1981
Ford	2.2 liter 4 cyl	Cars	Ford-Mexico	400,000/year	1983
	Diesel	Cars	Toyo Kogyo (Japan)	150,000/year	1983
	2.0 liter 4 cyl	Mini trucks	Toyo Kogyo	100,000/year	1982
	2.3 liter 4 cyl	Cars	Ford de Brazil	50,000/year	1979
	Diesel 6 cyl	Cars	BMW/Steyr (West Ger., Austria)	190,000/year	1983
	Diesel 4 cyl	Cars		N.A.	1985
	Manual transaxles	Front Drive Cars	Toyo Kogyo	100,000/year	1980
	Aluminum cylinder heads	1.6 liter 4 cyl	Europe, Mexico	N.A.	1980
	Accessory Motors	Cars, trucks	Ford-Singapore	N.A.	1984
	Electronic Engine control devices	Cars	Tashiba	100,000+/year	1978
	Ball Joints	Cars	Musashi Seimitsu	1,000,000/year	1980

APPENDIX III

OTHERS ACT TO SAVE THEIR AUTO INDUSTRIES; THE U.S. DEBATES AS OURS DECLINES

	Summary of Automobile Trade Restrictions (a)			
	Local Content Requirements	Non-Tariff Import Restrictions (b)	Export Requirements	Current Auto Tariff (c)
Australia	Yes	Yes	No	35-57%
Austria	No	Yes	No	20.0
Belgium*	No	Yes	No	10.8
Brazil	Yes	Yes	Yes	185-205
Canada*	No	No	No	14.2
Denmark	No	No	No	10.8
France*	No	Yes	No	10.8
Germany*	No	No	No	10.8
Italy*	No	Yes	No	10.8
Japan	No	No	No	0.0 (d)
Mexico	Yes	Yes	Yes	n.a.
Netherlands*	No	No	No	10.8
New Zealand	No	Yes	No	55.0
Norway	No	Yes	No	7.6
South Korea	Yes	Yes	Yes	80.0
Spain	Yes	Yes	No	68.0
Sweden	No	No	No	9.0
Switzerland	No	No	No	10.0 avg.
United Kingdom*	No	Yes	No	10.8
United States*	No	No	No	2.8

(a) The measures cited in this chart are for new cars. Trade restrictions on used cars are not reflected.

(b) Import restrictions apply to non-tariff measures maintained by a country which deals solely with imports. Tax measures which apply to both imports and domestically produced products are not included.

(c) Most European countries impose hefty value-added taxes (VATs) that make the effective tariff rate higher than shown.

(d) While no tariff is charged, Japan erects a complicated set of hurdles: peculiar product standards, vehicle by vehicle testing of imports, etc., which effectively double the price of imported cars.

* These countries have quantitative restrictions on imports from Japan.

n.a. = Not applicable; imports prohibited except by special arrangement.

Manufacturer	Component	Intended For	Source	Approximate Number of Components	Delivery Beginning
Chrysler	6 and 8 cyl engines	Cars	Chrysler de Mexico	100,000/year	1982
	2.2 liter 4 cyl	K-body	Chrysler de Mexico	270,000/year	1981
	2.6 liter 4 cyl	K-body	Mitsubishi (Japan)	1 million	1981
	1.7 liter 4 cyl	Omni/Horizon	Volkswagen (W. Ger.)	1.2 million	1978
	Manual transmissions	Omni/Horizon	Volkswagen	500,000	1978
	1.6 liter 4 cyl	L-body	Talbot (Peugeot)	400,000 total	1982
	2.0 liter Diesel and 6 cyl	K-body	Peugeot (France	100,000/year	1982
	1.4 liter 4 cyl	A-body (Omni replacement)	Mitsubishi	300,000/year	1984
	4 cyl engines	Cars	Peugeot	N.A.	1985
	Aluminum cylinder heads	2.2 liter 4 cyl	Fiat (Italy)	N.A.	1984
AMC	Car components and power train	AMC-Renault	Renault in France and Mexico	300,000/year	1982
VWA	Radiators, stampings	Rabbit	VW de Mexico	250,000/year	1979
	4 cyl diesel and gas engines	Cars	VW de Mexico	300,000+/year	1982

N.A. = Figure not available

SOURCES: Automotive News, Ward's Engine Update, Ward's Automotive Reports, American Metal Market, Detroit Free Press, Detroit News, Japan Economic Journal, and Journal of Commerce.

Mr. RUSSO. The next group of witnesses is a panel, the National Grange, Robert Frederick, legislation director; Robert M. McElwaine, president, American International Automobile Dealers Association; George C. Nield, president, Automobile Importers of America, Inc.; and Lee Greenbaum, chairman, trade policy committee, American Association of Exporters and Importers.

Mr. Frederick, you may proceed first. Your statement will be made a part of the record and you may summarize as you wish.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, NATIONAL GRANGE

Mr. FREDERICK. Thank you, Mr. Chairman. I have a very short statement. With your permission, I will read it into the record.

I have some material I would like to be included in the record, too.

I am Robert Frederick, legislative director of the National Grange, which represents more than 425,000 members in farm and rural areas in 41 States. Since its beginnings in 1867, the National Grange has been deeply concerned with our national interests as well as with the special and vital interests of the agricultural economy and rural America.

The United States and American farmers have been well served by the present system of international trade defined by the General Agreement on Tariffs and Trade [GATT]. Exports of agricultural products have exceeded $40 billion annually in recent years, a tremendous national asset at a time when high petroleum imports have been so costly to the U.S. economy.

Even with a decline in these exports in 1982, Japan purchased $5.7 billion of U.S. agricultural products—including soybeans, $1.1 billion; corn, $1.3 billion; wheat, $0.6 billion.

Furthermore, in 1982, European Economic Community imports of U.S. agricultural products were nearly $9 billion—including soybeans, $3.9 billion; corn, $1.3 billion; wheat, $0.3 billion.

These exports, along with other U.S. farm products, are extremely vulnerable to retaliatory action by our trading partners if legislation such as H.R. 1234 were to be enacted into law.

Along with other spokesmen for U.S. farmer interests, we are alarmed at the recent decline in our agricultural exports at a time when interest rates and rapidly increasing production costs are bringing many farmers to the verge of bankruptcy. Failures of farm businesses through no fault of the farmers represent a serious threat to the national as well as to our agricultural economy.

The Fair Practices in Automotive Products Act, H.R. 1234, presently under consideration by this subcommittee, would undermine the entire international trading system upon which the vitality of American agriculture so greatly depends. For that reason, we are strongly opposed to this bill.

Deputy Under Secretary of Agriculture Alan Tracy has described this legislation as "the worst threat to the international trading system and our own prosperity to be put before Congress in a decade."

H.R. 1234 violates our international agreements under the GATT. Its passage would invite retaliatory action from our trading

partners, which would be a serious blow to our export opportunities and to our efforts to revive our staggering farm economy.

Furthermore, it could lead to a breakdown of the world trading system and consequent world economic chaos.

We urge members of this subcommittee not to recommend such an unwise proposal. Though this bill seeks to correct the serious problem of unemployment in the automotive industry, authoritative studies have shown that the bill would cause far more jobs to be lost than gained for the Nation as a whole.

It is particularly ill-conceived because it does not deal with the central problems underlying unemployment in the U.S. auto industry. Recent reports of the increasing profitability of our domestic automobile industry, such as the attached stories—Wall Street Journal, August 3, 1983; Washington Post, August 21, 1983—have emphasized the need for greater competition in the interest of both consumers and laid-off automobile workers.

The Wall Street Journal story refers to estimates that an additional 750,000 cars could be sold at a more modest profit margin, which would go far toward relieving the industry's serious employment and economic problems. Further restriction of imported automobiles would only be a further disincentive to those domestic manufacturers who might choose to produce more cars for those middle-income consumers who still prefer an economy car.

We have worked closely with many special agricultural and other groups in opposition to H.R. 1234 and its predecessor, H.R. 5133 of the 97th Congress.

I am attaching copies of documents expressing this opposition by the National Grange and other groups with the request that these be included as part of this hearing record:

(1) February 11, 1983, letter of Edward Anderson, Master of the National Grange, to Speaker Thomas P. O'Neill, Jr.; (2) April 8, 1983 Statement on "Domestic Content" legislation (coalition of 58 organizations); (3) March 30, 1983 letter to Congressman James J. Florio; (4) March 9, 1983 Dear Colleague letter opposing H.R. 1234 [(Congressman Tom Foley (D-WA); Pat Roberts (R-KS); Charles Stenholm (D-TX), and Ron Marlenee (R-MT)]; (5) September 30, 1982 Statement of John Baize, American Soybean Assoc.

The 15 agricultural organizations listed below have approved the following statement of opposition to this legislation.

We urge opposition to the "domestic content" auto import bill, H.R. 1234. U.S. agricultural, consumer and other groups continue their vigorous opposition to this legislation because they recognize the critical need to encourage more orderly and rational world trade if international economic disaster is to be avoided.

According to the Congressional Budget Office, passage of such legislation would result in a net loss of jobs. Furthermore, its GATT-illegal proposals would trigger retaliatory actions which could be devastating to U.S. agricultural export market opportunities.

Sponsorship and support of this bill would be a serious disservice to our farmers, to all export-related industries and to Americans as consumers and as leaders in worldwide efforts to deal with today's critical economic and political threats.

American Soybean Association; Grain Sorghum Producer's Association; International Apple Institute; MFA Inc.; Millers' National Federation; National Association of Wheat Growers; National Broiler Council; National Corn Growers Association; National Council of Farmer Cooperatives; National Grain Trade Council; the National Grange; National Soybean Processors Association; Nation-

al Turkey Federation; Poultry and Egg Institute of America; U.S. Chamber of Commerce.

To summarize, H.R. 1234 would greatly harm farmers, exporters, consumers, and other U.S. workers. Passage of such legislation would be a devastating blow to the system of international trade upon which American agricultural prosperity depends and to our hopes for U.S. and world economic recovery.

We appreciate the opportunity to express our views before this committee on this legislative proposal which represents such a serious threat to our farmers and to our national interests.

Chairman GIBBONS. Thank you, Mr. Frederick.

[The material referred to follows:]

national grange

1616 H STREET, N.W. WASHINGTON, D.C. 20006 (202) 628-3507

February 11, 1983

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
H-204, the Capitol
Washington, D. C. 20515

Dear Mr. Speaker:

We note with great concern that the so-called "Fair Practices in Automotive Products Act" (more commonly known as the "domestic content" bill) has been re-introduced as H.R. 1234 of the 98th Congress.

U.S. farmers opposed this misguided effort -- H.R. 5133 of the 97th Congress -- to resolve an important problem of employment in the U.S. auto industry. That bill passed the House by a slim margin, but only after it had been rendered meaningless by the Fenwick amendment which specified that the bill was inoperative if it conflicted with our international agreements and obligations, such as the General Agreement on Tariffs and Trade (GATT) -- which of course it did.

U.S. agriculture opposed this GATT-illegal solution to a problem which is largely due to non-trade matters. H.R. 1234 would result in retaliatory measures which would seriously reduce our near-$40 billion in annual farm exports (as well as exports of other products). Furthermore, consumers would suffer higher costs. Most important, the Congressional Budget Office estimated that H.R. 5133 would not accomplish its objective of a net increase in jobs for American workers, but, if passed, would result in a net national loss of more than 60,000 jobs. Finally, it could lead to a complete breakdown of the world trading system and consequent world economic chaos and further economic distress.

Members of the many agricultural groups opposing domestic content legislation are urging members of Congress to refrain from sponsoring H.R. 1234 -- an inappropriate and misleading remedy for serious economic problems which the U.S. economy faces. U.S. farmers are already in a state of economic distress greater than any since the depression days of the 1930's, and they would be devastated by additional hardships which would result from domestic content legislation.

We attach statements which indicate the breadth and depth of the U.S. agricultural community's firm opposition to H.R. 1234.

Sincerely,

Edward Andersen

Edward Andersen
Master

Enclosures

national grange

1616 H STREET, N.W. WASHINGTON, D.C. 20006 (202) 628-3507

March 30, 1983

Honorable James J. Florio
Chairman, Subcommittee on Commerce,
Transportation and Tourism
Energy and Commerce Committee
H2-151
2nd and David Street, SW
Washington, D.C. 20515

Dear Mr. Chairman:

As you know, the impact of our trade policies and our initiatives to reduce barriers and distortions to trade are of critical importance to U.S. farmers and agricultural exporters. Our $40 billion plus export market which has contributed so greatly to our trade balance position is in a serious decline, and the nation will suffer along with our farmers unless we can sustain healthy foreign markets for U.S. farm products.

We understand your Subcommittee will review many of the trade policy issues which are facing this country at your hearing of April 5th. We would appreciate the opportunity to appear to express our concerns about such matters as unfair export subsidy practices, more open access to unfairly restricted foreign markets and the controversial automotive import "domestic content" legislation. Export subsidies represent an issue of overriding importance for U.S. agriculture. We are also greatly alarmed at the prospect of passage of H.R. 1234, a GATT-illegal proposal which would seriously threaten retaliatory actions by our trading partners and which could have a devastating impact on our foreign agricultural market opportunities. We enclose a letter of February 18, 1983, indicating the opposition of U.S. agricultural groups to H.R. 1234.

We would appreciate the opportunity to speak further to these other vital trade issues before your Subcommittee on April 5th.

The National Grange

Robert W. Fri[illegible]

The National Association of Wheat Growers

The National Corn Growers Assoc.

The National Broiler Council

American Soybean Association

national grange

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September 14, 1983

Honorable Sam Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We urge your opposition to H.R. 1234, the "domestic content" bill which would violate our international trading agreements and obligations and would threaten disruption of major agricultural and other U.S. export markets. Retaliatory actions and reactions which would almost certainly be triggered by passage of this bill could result in economic conflict which would be devastating to hopes for resolving the serious economic problems facing the U.S. and its world trading partners.

U.S. farmers and agricultural exporters encourage you to seek a more rational solution to the serious unemployment and other problems facing the U.S. auto industry. H.R. 1234 is an inadequate and misguided proposal which would not accomplish its objective, but instead would do further serious damage to our vitally needed $40 billion agricultural export market, to all of us as consumers, and to our vital national interests.

American Soybean Association
Grain Sorghum Producers' Association
International Apple Institute
MFA Inc.
Millers' National Federation
National Ass'n of Wheat Growers
National Broiler Council
National Corn Growers Asscciation
Nat'l Forest Products Ass'n
National Council of Farmer Cooperatives
National Grain Trade Council
National Grange
Nat'l Soybean Processers Ass'n
National Turkey Federation
Poultry and Egg Institute of America

(Delivered to all members of House Ways & Means Committee,
Sept. 14, 1983

April 12, 1983

STATEMENT ON DOMESTIC CONTENT LEGISLATION (S. 707)

The 58 groups and companies listed below, representing millions of American business people, farmers and consumers in all parts of the country, strongly oppose S. 707, the domestic content legislation entitled the "Fair Practices in Automotive Products Act."

Virtually identical legislation in the 97th Congress quickly gained many cosponsors before the full impact of the bill was recognized. Hearings in the Subcommittee on Trade of the Ways and Means Committee, independent analyses of the bill, the Congressional Research Service and others established that the legislation would seriously damage the U.S. economy. In the House, several cosponsors reversed position and voted against the bill.

S. 707 is an equally bad piece of legislation. In every respect, it is a misleading, misdirected and counterproductive proposal. If it is enacted, the consequences would be far reaching.

- o American consumers would pay more for their automobiles as normal import flows are distorted.
- o American exports would be jeopardized as other nations retaliate against the bill's explicit violation of U.S. international obligations under GATT.
- o American jobs would be lost. The Congressional Budget Office has estimated that by 1990, 104,000 jobs would be lost in the U.S. export sector against the creation of 38,000 auto jobs.

The bill is a dangerous prescription for the problems of the U.S. auto industry. These and other industry problems are part of a larger picture of economic adjustment and change which must be tackled in an equitable, comprehensive and long-term fashion.

The 98th Congress will consider many forms of trade and jobs legislation to deal with this situation. S. 707 is the wrong choice, and we urge you to oppose it.

Aerospace Industries Association of America, Inc.
American Association of Exporters and Importers
American Association of Port Authorities
American Association of Retired Persons/Teachers
American Electronics Association
American International Automobile Dealers Association

(over)

American Paper Institute
American Retail Federation
American Soybean Association
Automobile Importers of America
Automotive Parts and Accessories Association
Beatrice Foods Company
Caterpillar Tractor Company
Certainteed Corporation
Chamber of Commerce of the United States
Colonial Sugar Company
Computer & Business Equipment Manufacturers Association
Consumers for World Trade
Continental Grain Company
Council for a Competitive Economy
Delaware River Port Authority
Direct Selling Association
FMC Corporation
Imperial Sugar Company
International Apple Institute
International Association of Ice Cream Manufacturers
International Hardwood Products Association
League of Women Voters of the United States
Lockheed Corporation
Massachusetts Port Authority
Milk Industry Foundation
Millers National Federation
National Association of Stevedores
National Association of Wheat Growers
National Automobile Dealers Association
National Broiler Council
National Corn Growers Association
National Council of Farmer Cooperatives
National Customs Brokers & Forwarders Association
National Foreign Trade Council
National Grange
National Grain Trade Council
National Retail Merchants Association
National Soybean Processors Association
Pacific Rim Trade Association
Philadelphia Port Authority
Port Authority of New York/New Jersey
Port of Baltimore
Port of Portland (Oregon)
Poultry and Egg Institute of America
Scientific Apparatus Makers Association
Semiconductor Industry Association
The Boeing Company
The United States Cane Sugar Refiners Association
United States Council for International Business
Volume Footwear Retailers of America
Washington Citizens for World Trade
Xerox Corporation

Congress of the United States
House of Representatives
Washington, D.C. 20515

March 9, 1983

Hon.
U.S. House of Representatives

Washington, D. C. 20515

Dear

We are writing to urge you to oppose H.R. 1234, the so-called "Fair Practices in Automotive Products Act." This bill is essentially identical to H.R. 5133 as reported by the Energy and Commerce Committee last September. The legislation would require cars sold in this country to meet minimum domestic content requirements.

We urge you to oppose H.R. 1234.

H.R. 1234 would be a heavy blow to American farmers and agricultural export markets. Deputy Under-Secretary of Agriculture, Alan Tracy, called the bill "the worst threat to the international trading system and our own prosperity to be put before Congress in a decade." H.R. 1234 violates the GATT and would almost certainly lead to some form of retaliation against U.S. agricultural exports, which now total almost $40 billion annually.

The intent of the bill is to restore prosperity to our automobile industry by slowing down or preventing the importation of Japanese automobiles. However, this legislation would not put one unemployed auto worker back on the job this year. It could potentially damage our trade relations with the number one purchaser of U.S. agricultural commodities. The Japanese last year ranked number one in the purchasing of agricultural commodities by spending more than $6.6 billion. American farmers supplied the Japanese with corn worth $1.8 billion, soybeans worth $1.1 billion, and wheat worth $615 million. In addition to those items, we supplied cotton worth $504 million, hides for leather worth $255 million, and tobacco worth $302 million. Clearly, the consequences of enacting H.R. 1234 are far-reaching and ominous for all of agriculture.

While we can appreciate the frustration the automobile industry feels towards the Japanese, the answer is not a trade policy that helps one segment of our economy at the expense of another. We urge you not to co-sponsor this legislation and oppose it when it reaches the floor of the House. If you have any questions, feel free to contact Gary Mitchell of Congressman Pat Roberts' office at 5-8278.

Sincerely,

Tom Foley, MC

Ron Marlenee, MC

Charles Stenholm, MC

Pat Roberts, MC

Mr. Chairman: — Ways & Means Committee

I am John Baize, Washington Program Manager for the American Soybean Association. I appreciate this opportunity to offer the American Soybean Association's comments on H.R. 5133, the so-called "Fair Practices in Automotive Products Act." ASA strongly opposes the legislation and urges its defeat.

The American Soybean Association is a national, volunteer, non-profit, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and is supported by over 500,000 soybean producers who voluntarily invest in ASA programs through 23 separate statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

Other witnesses have expertly described the litany of technical faults with H.R. 5133. Clearly the technical case against the legislation is immense. Instead my objective today is to point out in common sense terms how dangerous passage and implementation of H.R. 5133 would be to the American economy, in general, and American agriculture, in particular.

American soybean producers are greatly dependent upon international trade. This year, over 55% of U.S. soybeans will be exported as whole beans, soybean oil, soybean meal, and a host of other soybean products. The value of these soybean and soybean product exports will approximate $3.5 billion, about 20 percent of total U.S. agricultural exports. As America's largest cash crop and this year its highest valued export crop, the soybean sector is enormously important to American farmers and the nation, in general.

The soybean sector has been able to achieve this remarkable record because America has a distinct competitive advantage to produce abundant supplies of high-quality soybeans. Because of our superior competitive advantage we have been able to supply our surplus production beyond U.S. needs to foreign nations at a price cheaper than those nations could produce them. Buyers in Japan, Europe and elsewhere have decided to take advantage of U.S. competitiveness as a soybean supplier and have bought ever increasing amounts from us. In order to gain the foreign exchange to pay for our soybeans and products the other nations have exploited their own competitive advantages in other products by selling their surpluses on the world market. It is this trade based on competitive advantage which forms the foundation for the world trade economy.

H.R. 5133 would in one step do more to destroy world trade than any U.S. action since the Smoot-Hawley Tariff Act. Implementation of the domestic content requirements of the bill would prevent Japan from using its proven competitive advantage in producing quality automobiles as a means of gaining foreign exchange. For a period of several years no Japanese automobiles could be sold in the U.S. because it would take that much time for Nissan, Toyota, and Honda to build auto plants here. During this period the Japanese could not gain essential foreign exchange with which to buy the products they must purchase from us.

9-30-1982

...o would pay the cost of H.R. 5133? First, the American consumer ...ould pay the cost of higher-priced American automobiles produced in ...n environment of very limited competition. Second, American farm... -- which collectively sell over $7 billion worth of their commod...ties to Japan -- would pay in the form of decreased demand brought ...out by Japan's lack of foreign exchange. Finally, the U.S. economy ...d the U.S. taxpayer would pay through a decline in the efficiency of ...e U.S. economy.

...ile the immediate costs of H.R. 5133 would be enormous, ASA believes ...e long-term costs of the repercussions the bill would bring about ...broad would be even greater. Does anyone doubt that other economic...lly-troubled nations would follow the U.S. lead and establish local ...ontent laws of their own? Of course they would. It is not difficult ...o conceive of a Japanese domestic content requirement for aircraft or ... European requirement on computers. How much success could the U.S. ...xpect in its current effort to expand value-added agricultural ex...ports if this bill is passed? The answer is, of course, very little ...since no country is going to let the U.S. add value here when they can ...se domestic content laws of their own to force the processing to be ...one abroad.

...could go on and on detailing the reasons H.R. 5133 should be de...feated. It is just bad legislation. American soybean producers who ...are currently in the midst of the worst economic crisis since the ...Great Depression can sympathize with the pain of U.S. autoworkers. ...However, we cannot agree with them that this legislation will solve ...their problem. Instead, it offers only false hopes for U.S. auto...workers and lost income and jobs for millions of farmers, workers in ...export industries, and merchandisers of imported products. If the ...U.S. wants to solve the problems in the U.S. auto industry it should ...seek ways to increase the efficiency and competitiveness of the U.S. ...auto industry; not eliminate its competition by government regula...tions.

In closing, Mr. Chairman, I reiterate ASA's total opposition to H.R. 5133. It is a bill which would start a wave of protectionism that will ultimately undermine not only the U.S. economy, but that of the entire world. The bill should be defeated now.

The Washington Post OUTLOOK

Sunday, August 21, 1983

Does Anybody in This Country Still Believe in Competition?

No, apparently not in our self-destructive auto industry

By Paul A. London

THE MAJOR AMERICAN auto companies have told their dealers that they can expect car prices to rise when the new models are introduced in September. General Motors has taken the lead, indicating that it will probably increase prices by an average of more than 2½ percent. All the companies are reducing rebates and low-cost financing arrangements, while raising the prices of most options.

If the patterns of earlier years are repeated, analysts say, additional price increases will follow during the year, even though the auto companies have just announced second quarter profits totalling $1.8 billion, including $1 billion at GM alone.

Instead of accepting this in silence, the public should be urging the auto companies to lower prices and profits, and to join in a national effort to improve the country's competitive position. In similar situations, Japanese companies have always chosen to go for higher volumes of production, a bigger share of the market and more jobs instead of higher profit margins. In fact, the late esteemed president of the United Auto Workers union, Walter Reuther, advocated this same approach 25 years ago.

Paul London is a Washington economic consultant

Yet no consumer organization, no blue ribbon group of financiers and bankers, no labor union, no defender of the poor, and no representative of the Federal Reserve Bank or the Reagan administration has suggested that auto price increases now might hurt America's effort to retain industrial jobs and compete more effectively with the Japanese in the U.S. market.

There is something bewildering about this silence when auto company profits are rising, unemployment remains high and middle class car buyers are still suffering from "sticker shock." This would seem to be an excellent opportunity for American companies to regain a larger share of the market lost to Japan in the 1970s. Because of the "voluntary" quotas on Japanese auto imports, Japanese cars are in strong demand here — so much so that many U.S. dealers have been casually raising the price of these cars to consumers. Now is the time, one would think, for aggressive price cuts by American automakers.

But that, apparently, isn't in the cards.

Proponents of price increases on American cars have been arguing that a 2 to 4 percent price increase is not large and therefore not inflationary. But this is untrue. Even at present price levels, big profits are potentially inflationary. They create strong pressures for wage increases which could spread through the economy despite high unemployment.

See CARS, Page C5

CARS, From Page C1

The UAW at Chrysler this summer sought to reopen talks on its existing contract in order to recapture concessions worth $2 per hour in wages that it made to the company when Chrysler was fighting for survival last year. When the company refused, the union made clear it would renew the demand when the Chrysler contract expires in January.

Auto workers at Ford and GM, whose contracts run out in November 1984, also want to get back everything they gave up when the companies were in trouble, and more. And with profits at current levels, it will be hard for the auto companies to resist these wage pressures.

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As usual, the unions and the companies have the option of inflicting their demands at the expense of the American consumer and other American workers and businesses. History suggests that they will take this option. Auto prices have risen by 30 to 40 percent since 1979, and the auto unions got a 30 percent three-year contract increase in 1980. Both these developments were clearly inflationary and were only possible because neither auto wages nor prices are set in a truly competitive market.

If nothing is done this year to head off price and wage increases in this industry, higher profits will, once again, be divided between the companies and the auto workers with jobs. The auto industry will lose a chance to regain market share from imports, over 200,000 auto workers still on lay-off will be sacrificed to the interests of those who are working, and companies and workers in other industries will have new and inflationary profit margin and wage standards to emulate.

As inflation gathers force, government will either step in again as it did in 1980 to create a recession in order to bring inflation under control, or the United States will go the way of countries like Argentina, where price and wage changes in heavily protected smokestack industries have lost all relationship to the requirements of a competitive market.

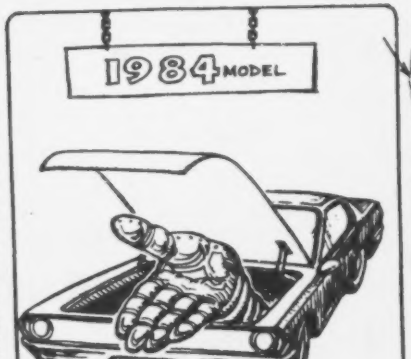
It is true, of course, that factors other than prices contributed to the phenomenal inroads that foreign auto companies, especially Japanese, made in the U.S. market in the 1970s. U.S. imports of Japanese cars rose from 600,000 in 1975 to more than 1.9 million in 1981. The fuel efficiency, quality and wide selection of imports were all factors that gave the Japanese companies a competitive edge. Lower Japanese labor costs, estimated by the U.S. Department of Transportation in 1980 to be in the range of $1,500 lower for subcompact cars, were also a help.

But now these advantages have largely disappeared. The fuel efficiency and quality of American small cars have all been improved, and the U.S. companies now offer consumers a wider selection of compacts and subcompacts to choose from. Meanwhile, the difference in U.S. and Japanese labor costs has narrowed.

In other words, price is likely to be a much larger factor in the competitive position of Japanese and American companies in the 1980s than it was in the 1970s.

Americans who want economic growth, more jobs, and a revival of American hopes for the future cannot afford to be complacent now about the way the auto industry sets prices and wages. If this opportunity to lower prices and regain markets is missed, it will be small businesses and workers who don't have the backing of strong unions in a protected industry, who will pay the price of the deal between the auto companies and the union. The only question is how to assert the public interest in practical and effective ways that also are politically acceptable.

Watch Our Automobile Industry Do Itself in



Blake — The Spectator, Hamilton, Ontario

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It is the U.S. auto industry's major competitor, Japan, which provides the best model for dealing with this issue. Japanese companies and unions in a number of industries, including autos, have consistently chosen to increase their volumes and expand their share of markets rather than raise prices and wages at times like the present.

This strategy has been an underpinning of the whole Japanese success story. And it has been made possible by the explicit willingness of Japanese unions to accept wage settlements intended to promote more employment rather than just higher wages for those with jobs.

The Japanese government has encouraged this strategy consistently since the war by helping to keep interest rates low. Rates there are currently 6½ percent, about half our own. Low interest rates allow companies to borrow capital to pay for their expansion, instead of paying for it by accumulating large profits, which only encourage unions to ask for more.

Part of the *quid pro quo* for the wage restraint shown by Japanese labor unions has been that country's fabled job security. But job security is more than just a social compact between companies and unions. It has been made possible by the overall Japanese strategy of emphasizing volume and growing market share instead of short-term profits. Even in Japan, where the principle of lifetime or long-term employment is deeply embedded in major industries, there are still layoffs when markets shrink, as they have in some sectors recently.

Clearly, it is the interest of American workers who treasure job security to support a U.S. strategy stressing long-term competitiveness ahead of short-term benefits.

One esteemed former union leader, the late Walter Reuther, would have understood the arguments being made here very well, and he would have supported every one of them. It is interesting to read Reuther's testimony before congressional committees in 1958, at the end of another recession. He argued then, as I have argued here, for a new spirit of the partnership companies, unions and the public.

He urged auto companies to cut prices instead of raising them, and to narrow their profits from increased sales instead of higher markups. He promised that if they would do so, he would curb the wage demands of his members. Even then, before the era of fierce foreign competition, Reuther figured that higher volumes of production, made possible by reasonable prices, would create more jobs. To Reuther this was so important as higher pay for those already working. He saw that growth was the key to prosperity and job security for his members and the country.

Unfortunately, the auto companies and the public did not see the strengths of Walter Reuther's proposals in 1958. Had they done so, the Japanese might not have over 20 percent of the U.S. auto market today. But it may not be too late for those who want an American industrial revival to call for price cuts and wage restraint as the economy strengthens.

This approach should not be limited to the auto industry. Here any more than it is in Japan, But the auto industry is the key at this time.

Other industries and other unions ought to be encouraging the auto companies and unions to adopt a new strategy. Steel, rubber, electrical machinery and electrical manufacturers and their unions, to name only a few, have a major interest in an auto industry that grows larger, not fatter.

Small business organizations should demand that the auto industry play its part now in controlling inflation. If small business should, high interest rates can become a thing of the past. If it does not, as Walter Reuther recognized, it will not be large industries such as autos which will be priced and crowded out of credit markets.

Farmers and homebuilders also have a stake in lower interest rates, lower auto prices and the growth they would encourage. They should speak out too.

If the profit-wage spiral can be stopped in its tracks now by all those who have an interest in it, a lasting recovery will be possible. If not, Detroit and the other big industries that follow its lead will bear a heavy responsibility for the recession that is sure to come.

No Deal

THE WALL STREET JOURNAL
Wednesday, August 3, 1983

High New-Car Prices Keep Many Lookers Looking, Not Buying

Through Long Sales Slump, U.S. Tags Rose Steadily As Firms Stressed Profits

A Boost From Import Curbs

By Amal Nag
Staff Reporter of The Wall Street Journal

DETROIT—As the economic recovery gathers momentum, consumers are once again visiting new-car showrooms. But what they're finding there—price increases far exceeding their pay gains—persuades many of them to drive home in their old cars.

Protected by import curbs on the fiercely competitive Japanese cars and anxious to recover their own multibillion-dollar investments of the past few years, American auto makers are leaving the low-income consumer in the dust. Through three years of the worst auto sales since the Great Depression, the car companies have increased prices steadily. Behind the increases is a strategy that almost permanently concedes nearly a quarter of the U.S. auto market to foreign producers and aims at higher profits on lower volume.

"We aren't in the business of lowering prices; we're in the business of making money," says a financial executive at a Big Three company.

How much the U.S. companies are also in the business of raising prices has become clear over the past four years—a period significant partly because the average consumer buys a car on a four-year cycle roughly paralleling the term of his auto loan. Moreover, auto sales began slumping four years ago. But since 1979—a period in which the median family income rose only 21% to about $23,700—car prices have surged.

Sample Increases

Here's what has happened to the sticker prices of a few similarly equipped cars: A four-door Chevette, General Motors Corp.'s cheapest car, went up 37% to $6,218 from $4,527; a mid-sized Chevrolet Caprice, up 39% to $10,727 from $7,731; an Oldsmobile 88, up 49% to $11,239 from $7,562, and Ford Motor Co.'s sporty Mustang, up 58% to $9,608 from $6,180.

There's more to come. With auto sales rebounding, GM plans an average 2.5% price increase on new models at the beginning of the 1984 model year in September, and Ford has announced a 2.3% rise. Auto executives predict further increases as demand strengthens.

"We've been spending billions of dollars that we didn't have right through the worst sales period in decades," one Detroit auto man says. "If you have to make your hay while the sun shines, you better make a hell of a lot of hay."

Right now, auto companies are making plenty of hay. June auto sales ran at an annual rate of 7.1 million units, up from a 4.6 million unit pace a year before. And the price increases, coupled with stringent cost cutting over the past two years, are revving up earnings. Last week, GM reported record second-quarter net income of $1.04 billion, nearly double the year-earlier level, and Ford's profit more than doubled.

Turned-Off Buyers

But these gains are being harvested without the help of many potential buyers. After checking out the new prices, many consumers are deciding that they don't have either the down payment or the ability to meet monthly payments. They're choosing to hang on to their old cars or to trade them in on later-model used ones. And some who could well afford a new car are deciding that it isn't worth the expense; instead, they are buying other goods, taking a vacation or adding to their savings.

Altogether, the price increases of the past four years have frozen an estimated 750,000 potential new-car buyers out of the market, says John Hammond, a researcher at Data Resources Inc.

"Prices force you to consider what's the best buy for your money," says Edward C. Lee of Owosso, Mich., who recently bought a $3,500 Apple computer after visiting several auto showrooms. "The money was better spent on the computer," he says. "Practically everything you do today involves computers." And in Cleveland, Miss., Brad Hovious, who had always bought brand-new cars, recently settled for a 1981 Buick. He says he simply couldn't afford a 1983 model. "The auto companies have priced themselves out of the middle-income market," he adds. "My next car will be a used one, too."

Maximizing Profits

Such decisions don't seem to worry auto executives, who argue that cutting prices enough to entice disgruntled consumers to buy a new car would reduce the companies' profits on each car more than the additional volume could recover. "The companies are maximizing profits," says George E. Hoffer, an economics professor at Virginia Commonwealth University who has studied auto pricing. "Profit maximizing requires raising prices even though it means losing customers."

Auto makers can maximize profits because in the oligopolistic domestic auto industry the three major producers tend to copy each other's price moves. One auto executive notes that if one company lowered prices, the others would follow immediately—just as they did with various rebate programs over the past few years. As a result, price cuts wouldn't increase anybody's market share, and "everybody would be worse off," he says.

However, some worried economists note that for the first time in recent memory, the auto industry didn't lead the economic recovery. Gross national product, the nation's

Please Turn to Page 8, Column 1

Stressing Profits, Keep Many Lookers From Buying

Continued From First Page

total output of goods and services, started rebounding last November, but auto sales didn't begin a sustained increase until April, four months later. Data Resources' Mr. Hammond predicts that in the first full year of the auto industry's recovery, car sales will increase at about half the pace of the first year of the 1975 recovery. In an industry that accounts for 2.5% of GNP and sends ripples throughout the economy, such sluggishness is troublesome.

"Without a full recovery in the auto industry, the general economic recovery will be restrained," Mr. Hammond says.

Buying a car has always strained many families' budgets, even when prices were much lower. Today, the strain is unusually severe. According to the Labor Department, the purchase of a new car requires an average 36.6 weeks of salary, even with the auto makers' promotional rebates and discount interest rates. In 1979, it took 31.2 weeks. The figure has been rising steadily from a 1973 low of 27.9 weeks.

"Prices have reached absolutely frightening levels," says Prof. Hoffer, citing the current average of $11,000 a car. "A 5% increase today means a lot more than it used to. That's why car sales will never go back to the levels of the 1970s," when domestic sales topped nine million units. Various estimates put domestic auto sales at 6.7 million units this year and at 7.5 million next year.

The price runup had its roots in the steep inflation of 1979, 1980 and 1981, when auto makers' costs were surging and sales were falling. Led by GM, the auto companies increased prices every quarter, with especially big increases when new models were introduced each fall. Although the price increases moderated last year as inflation slowed and cost cutting took hold, the companies are emerging from their four-year slump with inflation-adjusted prices up 16%. In the previous four years, inflation-adjusted prices rose only 4%.

"There was a tendency to rely on price increases because we didn't do a very good job of controlling costs" early in the recession, one auto executive acknowledges.

Coy Maneuvers

Still, auto makers have been coy about raising prices. Sometimes, they announced small increases on a stripped model while quietly raising prices for optional equipment and for such items as freight charges. At other times, they left prices intact but made previously standard equipment optional—so, similarly equipped cars cost more. And occasionally, they made optional equipment standard and raised prices accordingly while contending that prices of similarly equipped cars hadn't increased at all.

This year, for example, Ford eliminated what it had called its base-model Escort. Thus, a shopper looking for the cheapest transportation found not a stripped Escort but one that had a moderate level of equipment and cost an additional $584, or 10% more than the base model that had been dropped. Chrysler, too, quit making its stripped subcompact and compact models that had accounted for as much as 50% of the sales of some lines.

And while the industry boasts of spending billions of dollars during the past several years to design new models and build more efficient manufacturing plants, it is on some of the newer models that prices are climbing the most. Chrysler's compact Reliant sedan, introduced as a 1981 model, sells for $8,945, 63% more than the 1979 Volare compact that it replaced. Ford's new Tempo carries a price tag of $9,220, up 72% from the Fairmont it replaced.

Costlier Options

Option prices have risen, too. On a 1983 Chevrolet Caprice, an air conditioner costs $725 today, up from $605 in 1979; tinted glass is $105, up from $84, and a rear-window defogger is $135, up from $101. One of the few items that are cheaper is GM's standard radio; as a result of increased competition from independent radio dealers, its price has declined to $198 from $236.

Auto dealers also have been pushing through price increases. The factories' tendency to make lucrative optional equipment standard has reduced the dealers' ability to work their own profit into each car sale. So, dealers have been finding other ways to increase their margins, usually by adding such extras as rust-proofing, paint striping and other decorative items.

The various rebates that manufacturers have been providing give dealers another chance to fatten their profits. Many rebate programs offer them the choice of passing along the full saving to customers or keeping some of it for themselves. Prof. Hoffer estimates that dealers have passed along only 25% of the advertised savings.

Indeed, rebates have helped the industry more than straight price cuts would have. Because rebate programs expire after a while and then are renewed, they have a promotional value that a one-time price cut lacks. Volkswagen, for instance, did cut the price of its Rabbit earlier this year. "They got headlines one day," one Detroit executive notes. In contrast, he says, "Every time we renew an incentive program, we're able to plaster it all over newspapers."

A Basic Appeal

Adds David Lewis, a professor of business history at the University of Michigan: "It's the same philosophy that you see in the supermarkets. Nobody remembers lower prices the next day. But it appeals to basic human instinct if you raise the price and then offer discounts."

One reason the auto makers have been able to raise prices so fast even in a depressed market is the protection that they have from their Japanese competitors. With annual imports of Japanese autos limited since 1981 to 1,680,000 units under a U.S.-Japan agreement, the Japanese haven't been able to exploit a cost advantage estimated at $1,500 to $2,000 per car. Instead of competing with U.S. auto makers on price, the Japanese have concentrated on selling higher-priced cars in this country, in effect providing a pricing floor for the U.S. industry.

"The restraints are going to be increasingly more expensive for consumers as the market improves," predicts William A. Niskanen, a former Ford executive and now an economic adviser to President Reagan.

Chairman GIBBONS. Our next witness is Mr. McElwaine of the American International Automobile Dealers Association.

STATEMENT OF ROBERT McELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. MCELWAINE. Thank you, Mr. Chairman. We asked permission to submit our written testimony later in the day.

Chairman GIBBONS. Without objection, it will be received. We will hold the record open until Monday next week.

Mr. MCELWAINE. Thank you.

Mr. Chairman, we are here to consider once more, a year after its introduction, the subject of an automotive domestic content bill. In the year since this piece of legislation was introduced, it has literally been studied to death.

The CBO, the Government Research Service, the Wharton Institute, and many others have all analyzed this bill and concluded it would be an economic disaster of unprecedented proportions.

In hearings before the Ways and Means Committee, the Commerce Committee, and the Senate Finance Committee, the flaws in this legislation have been repeatedly exposed.

In a rational world this bill long ago would have ceased to be a matter of serious consideration by this august body. It would be irrational, however, for anyone who reads a newspaper to conclude this is, indeed, a rational world.

The philosophy of domestic content was seriously flawed at the time of its introduction a year ago and events since that time have invalidated its original rationale. Continued examination of the proposal has demonstrated repeatedly that passage of this legislation would have catastrophic consequences for both the American and the world economies.

Were logic at work here, this committee would not be convening at the present time and we would not even be considering this bill any longer.

Domestic content long ago should have been consigned to the dust bin of legislative ideas that have proved to be dangerously ill-advised.

Yet a year later, domestic content remains alive even though only the United Auto Workers and the AFL–CIO are maintaining its life support system. It is time, I think, for Congress to pull the plug on the life support system of this particularly ill-born legislative monstrosity and let it die a deserved death.

The developments within the domestic automobile industry in the last several months have conclusively proved that there is no necessity for any such protectionist or restrictive legislation as this.

Domestic car sales, as we have talked about earlier this morning, are running 20 percent ahead of last year while imported car sales are up by less than 10 percent. Domestic car sales in July were running at an annual rate of excess of 7 million units, 1.3 million units higher than the 1982 figures.

The sales of domestically produced, larger cars are up almost 33 percent as of August 20 over last year and, of course, the larger cars are the more profitable cars for the domestic manufacturers to sell.

The Japanese automobile sales for 1983 will be down to around 18 percent of the U.S. market from their high last year of 22 percent, so in general we are looking at a substantial recovery, a rather robust recovery by the domestic automobile industry.

This recovery would probably be a great deal stronger than it is now were they not severely handicapped by a shortage of product. Such cars as the Olds 88 are down to a 23-day supply. The Ford Escort is at a 29-day supply.

These are less than half what the industry considers a normal supply of automobiles right now. The domestic dealers are reporting that they will be on allocations for their more popular models for the balance of the model year and, indeed, the manufacturers are already mixing in 1984 models with their 1983 models simply to give the dealers an adequate supply.

We have, in other words, a robust recovery, particularly in the area of profits. We are looking at a situation where the domestic manufacturers in 1983 will realize a greater profit than they have in any previous year in their history on a sale of 2 million fewer cars than they sold in their previous biggest year.

We are looking, according to Paine Webber—for which I say "thank you, Paine Webber"—at net profits for the industry for 1983 of $5.340 billion. This is opposed to the present profit record in 1977 of $5.136 billion, and the projection for 1984 is profits of $7.487 billion exceeding their previous record by more than $2 billion.

This, again, on sales that are running substantially lower than their previous sales records. According to the Wall Street Journal, General Motors after reaching its break-even point is now making profits of $3,000 per car sold, an unprecedented level of profit for this particular industry.

Why are they able to make this kind of money, especially on so few cars?

They are able to because there is no price competition. The voluntary restraint agreement in effect on Japanese cars has Japanese dealers selling cars at $2,000 to $2,500 over sticker prices because of the scarcity of the product. The Japanese manufacturers are shipping in their more expensive cars rather than their economy models, and the cars are coming in loaded with air conditioning and all the other goodies you can put on them.

In addition to which the dealers are adding $250 for paint sealant, $250 for undercoating, $250 for dealer preparation, and price competition does not exist in the automobile market today.

There is a 4- to 6-month wait on most popular Japanese make automobiles and we have shortages in domestic automobiles, as well.

So we are seeing these kinds of huge profits. When Congress and the administration pressured the Japanese to impose quotas in 1981, I think they did so on the assumption that domestic manufacturers would use this period of reduced competition to regain their lost market share and to increase their volume, thereby creating more employment.

Instead, the auto makers took advantage of the quotas to raise their prices creating the sticker shock of 1981 and 1982 and this

enabled them to improve their profitability and replenish exhausted reserves.

Consequently, Chrysler is able to repay its Government-assured loans 7 years early; Ford Motor Co. can pay $3.3 million in dividends to Henry Ford's family for 90 days profits, but we still have 137,800 automobile workers on indefinite layoff.

In a recent article, Mr. Lee Iacocca betrayed his concern with these profit margins when he said that, "price competition from other nations could play havoc with our recovery." Price competition from the Japanese auto manufacturers which has been removed from the U.S. market place by the quotas would force the American manufacturers to reduce their prices to the consumer and their per/unit profits.

Now, cutting these car prices would increase the total market, however, bringing into the market place all the millions of Americans who either cannot or refuse to pay the present prices of automobiles in this country today.

GM, Ford, and Chrysler might well continue to make the same profits but they would have to sell a lot more cars in order to do so. This would create more jobs and bring down the consumer prices as well.

The Wharton Institute study which has been done just recently points out that since the limit on Japanese car shipments went into effect in April 1981, the average per car selling price in the United States has jumped by more than $2,600, an increase of 35 percent, which is twice the increase in the Consumer Price Index for the same period of time, which certainly illustrates how restrictions on imports have increased consumer prices.

Chairman GIBBONS. Would you mind repeating that? What is that figure?

Mr. MCELWAINE. This is the Wharton Institute study. Since April 1981 when the Japanese car shipments limitations went into effect, the average new car selling price in the United States has increased by $2,600, a 35-percent increase which was twice the increase in the Consumer Price Index of the same time.

Chairman GIBBONS. You mean while unemployment has been going up, prices in the industry have gone up faster?

Mr. MCELWAINE. Have gone up by 35 percent.

Chairman GIBBONS. It is a peculiar industry.

Mr. MCELWAINE. You have a situation here, Mr. Chairman, where the domestic industry seems dedicated to the proposition of making fewer and fewer cars at bigger and bigger profits. It is certainly an easier way to make money than it is to make a great many cars at small profit.

Chairman GIBBONS. That seems to me like it has all the earmarks of a monopoly of some sort.

Mr. MCELWAINE. You know, back in 1958, Walter Reuther——

Mr. JENKINS. Will the chairman yield?

Chairman GIBBONS. Yes.

Mr. JENKINS. Does the fact that the domestic manufacturer is manufacturing primarily larger automobiles during that period of time play any part in that 35-percent increase figure?

Mr. McELWAINE. They have increased the percentage, the share of their output that is taken up by the larger cars, certainly, but compact and subcompact cars are still a majority of the output.

Mr. JENKINS. What is the average increase in the smaller car during that same period of time?

Mr. McELWAINE. I don't think I have those figures. I am sure we can get them for you, though.

Mr. JENKINS. I was just wondering if there was some distortion in those figures if, in fact, the domestic market had resorted to the larger automobile, the more expensive automobile. We may be comparing apples and oranges.

I don't know, I just wondered if that played a part in the increase.

Mr. McELWAINE. This is the Wharton Institute estimate, they estimate that as much as $1,000 of the $2,600 increase is due directly to the inflationary impact of the voluntary limit on Japanese shipments. In particular, domestic small car prices were boosted as rapidly as import prices.

Wharton's analysis indicates that the normal free market result would have been an increase in the average price of only $1,400 or 18 percent over the last 2 years.

Mr. JENKINS. Thank you.

Chairman GIBBONS. Pardon me for interrupting you, go ahead.

Mr. McELWAINE. Back in 1958, Walter Ruther, speaking to the domestic automobile industry, pleaded with them to reduce their prices, to cut back on their profits and reduce their prices in order to increase the volume of cars that they were making which would thereby increase jobs.

He also pledged that if the domestic manufacturers would reduce their prices, that labor would reduce their demands for increased wages.

That way there would be more jobs.

Yet, today we have a situation where in spite of record profits, Ford, General Motors, and Chrysler, have announced price increases for the 1984 models; where the United Autoworkers are pleased that they have managed to negotiate an increase in the Chrysler contract which will add $2 an hour to the cost of labor in the Chrysler organization which, of course, will be passed on to the consumer.

But none of this wage-price-profit spiral is going to be possible without these restraints on import competition. This is the true reason for the voluntary restraint agreement and for the incredible survival of the domestic content legislation in the face of all the studies which should have discredited it long ago. But the consumer is paying for this in the long run.

We have been frequently asked when suggesting or talking about the domestic content legislation, "Give us an alternative," but what other kind of legislation can you propose that will help address the problems that we have?

I still remember the words of the chairman who once said, "You can't pin wings on a snake and make it into a butterfly. You can call it a butterfly, but it is still a snake."

You know, this certainly applies to domestic content legislation. But there are so many things that could be done to help the indus-

try and to help the whole American economy other than going this protectionist route that domestic content legislation would imply.

Certainly the best strategy for this committee might well be to offer a substitute bill which could go to the Congress along with the domestic content bill which the Commerce Committee has already voted out.

However, the rather peculiar parliamentary ground rules for this particular piece of legislation make it virtually impossible because of the time limitations, to develop any kind of alternative legislation. But if time permitted, the kind of things that could be done to help this industry—we really started putting this together under the headline of a National Auto Recovery Act of 1983, but in view of the fact that we have put 125,000 people back to work in the industry and increased production by 1 million units and the manufacturers are making the biggest profits in their history, the idea of an automotive recovery act now seems to be a little archaic.

Nevertheless, the things that can be done to insure the duration of this recovery in the future of the industry could well be, one, to make the United States as attractive a place for capital investment by the domestic manufacturers as they have found in other countries around the world. Not by saying, "You can't invest in those countries because you can't bring those parts back and put them in your cars here," but by finding ways that we can compete with France, and Spain, and Portugal, and Ireland, and Wales, and Korea, and South Africa, and some of these other nations for the capital investment of the particular countries.

Chairman GIBBONS. I don't want to cut you off, but we are on a very tight time schedule.

Mr. MCELWAINE. I understand, and I am just about wrapped up.

Just one final point which is that I hope this Congress will take the responsibility to try to substitute for Government policy that seeks to avoid international competition, policies that are designed to meet such competition, that our challenge is to adapt to new conditions in the world market and not to seek to preserve the status quo.

Thank you very much.

Chairman GIBBONS. Thank you very much.

[The following statement was subsequently received:]

STATEMENT OF ROBERT MCELWAINE, PRESIDENT, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. Chairman, we are here to consider, a year after its introduction, the subject of an automotive domestic content bill. In the year since this measure was offered, the concept of a domestic content law has literally been studied to death. Analysis by the Congressional Budget Office, the Government Research Corporation, Harbridge House and Wharton Econometric Forecasting Associates have concluded that passage of the legislation would have catastrophic consequences for the world and the United States economy.

Hearings before the committee, the Committee on Energy and Commerce and the Senate Finance Committee have established that the legislation would adversely affect the competitive abilities of the domestic auto industry and would destroy far more jobs than it would create.

In a rational world, the concept of domestic content legislation would have ceased long ago to be a matter for serious consideration by this august body. It would be irrational, however, for anyone who has read a newspaper in the past two weeks to assert that this is indeed, a rational world.

The philosophy of domestic content requirements was seriously flawed at the time of its introduction. Events since that time have invalidated even its original rationale. Were logic at work, we should not be here at all and domestic content would have been consigned to the dustbin of legislative ideas that proved to be dangerously ill-advised.

Yet, domestic content lives, even though only the United Auto Workers and the AFL-CIO maintain its life-support system. It's time the Congress pulled the plug on the respirator and allowed this ill-born legislative monstrosity a peaceful and well-deserved death.

THE STATE OF THE DOMESTIC INDUSTRY

On June 16, 1980, the Chairman of the Chrysler Corporation, in asking for "breathing room" for the domestic auto industry, said, "In two years, the entire domestic industry will be ready to take on the challengers—in fuel efficiency, quality and performance."

In the three years that have passed since that statement, the domestic manufacturers have, indeed, managed to become competitive and the industry today is in the midst of a robust and sustained recovery. Domestic car sales are twenty percent ahead of last year, while imports have gained less than ten percent.

Domestic car sales are running at an annual rate well in excess of seven million cars, in contrast to 1982's 5.8 million sales. Japanese car sales for 1983 will account for approximately 18 percent of the market, in contrast to the 22 percent they held a year ago.

Current sales actually understate the strength of the market, since the domestic manufacturer's cautious production schedules have created product shortages in almost all lines. Domestic dealers report that some popular models will be on strict allocations for the balance of 1983. Dealers' gross profits per unit are at all-time record rates.

U.S. automobile production in the fourth quarter of 1983 will near two million units, more than sixty percent higher than last year's final quarter and nearing the 1978 fourth quarter record of 2.3 million.

Most importantly, Detroit is making more money than at any time in its history. According to Paine-Webber, combined Big Three profits for 1983 will reach $5.34 billion, exceeding the 1977 record of $5.136 billion. Astonishingly, the manufacturers will achieve this incredible earning level while selling two million fewer cars than they did in 1977.

Obviously, the domestic makers are realizing by far the greatest per-unit profit in their history. The Wall Street Journal estimates that GM, after reaching its break-even point, is making a $3000 profit on every car it sells.

EFFECT OF TRADE RESTRAINTS ON U.S. INDUSTRY PROFITS

When Congress and the Administration pressured the Japanese into imposing quotas on their auto exports in 1981, they did so in the assumption that domestic manufacturers would use this period of reduced competition to regain lost market share and to increase their volume, thereby creating more employment. Instead, the auto makers took advantage of the quotas to raise prices, creating the "sticker shock" of 1981 and 1982. According to Wharton Econometrics, since the limit on Japanese car shipments went into effect, the average new car selling price has jumped by nearly $2600, in increase of 35 percent.

This is more than twice the increase in the consumer Price Index and illustrates how restricting imports raises prices. Wharton estimates that $1,000 of the increase is due solely to the inflationary effect of the limit on Japanese shipments.

The most significant of the Wharton findings is that the price increases generated by the import restrictions sharply reduced domestic car sales. New car price increases, asserts the Wharton study, reduced domestic car sales more than did gasoline price hikes or high interest rates. Wharton estimates that price increases reduced domestic car sales by 480,000 units.

The Detroit policy of selling fewer cars at greater profits is keeping consumers out of the marketplace. Price competition from the Japanese auto manufacturers, a factor removed from the U.S. market by the quotas, could force American manufacturers to reduce prices to the consumer and their astronomical per-unit profits.

Cutting prices would bring back into the marketplace those consumers who cannot, or will not pay the present prices for automobiles. GM, Ford and Chrysler might well continue to make the same profits, but they would have to sell more cars to do so. In turn, this would create more jobs.

EMPLOYMENT AND IMPORT RESTRAINTS

The only justification offered for wrecking America's trade relations with its major partners and inflicting an 18 billion dollar per-annum cost burden on the American consumer through domestic content legislation has been the UAW claim that the bill would create as many as one million jobs. The real-life experience gained through three years of the Japanese "voluntary" restraint agreement, however, has indicated that restraints on imports, rather than creating jobs, have actually reduced the number of employed workers in the auto industry. Wharton Econometrics says that price increases resulting from the Japanese quotas have reduced domestic car sales by 480,000 units. According to industry statistics, these lost sales would have provided an additional 34,000 jobs [1] for American workers.

The solution to unemployment in the auto industry is greater production. Greater production can only be brought about by lower prices, which will bring more people into the marketplace, forcing a demand for higher production.

The domestic manufacturers, however, seem to want to go the other way. Despite their record profits, they have announced substantial price increases for 1984. By ending buyer incentives such as rebates, subsidized interest rates and temporary price cuts, they already have raised prices on a de facto basis.

Their aim seems to be to sell fewer and fewer cars at greater and greater profit—and let the Japanese take over the low profit segment of the market.

In 1958, Walter Reuther pleaded with the Detroit Big Three to cut automobile prices and offered to reduce labor costs proportionately. This enlightened president of the UAW realized that lower prices meant greater production and, therefore, more jobs. Today, the UAW is proud that its latest negotiations have raised the labor cost for Chrysler by two dollars an hour, which Chrysler will recover by raising its prices.

None of this wage-price-profit spiral would be possible without the restraints on import competition. That is the true reason for the Japanese Voluntary Restraint Agreement, which has now become the battleground for an unseemly and disturbing struggle between the domestic manufacturers, as each attempts to turn the quota to its own advantage. It is the only reason for the incredible survival of domestic content legislation. As usual, the public is paying for the continuation of the VRA and is expected to pay for the awesome costs of domestic content requirements.

The domestic manufacturers' determination to hold down employment even when it means foregoing increases in sales volume has created shortages in many lines of Detroit automobiles. Domestic dealers report that popular models are on strict allocation for the balance of the calendar year. So few 1983 models are left in stock that dealers are delivering 1984 models long in advance of their official introduction.

Although nearly 100,000 auto workers have been recalled since the first of the year and indefinite layoffs are at their lowest point in three years, industry policies are holding down the level of employment in the industry. Additional volume is largely achieved through overtime, rather than by adding additional shifts, which would mean bringing more workers back and adding their benefit packages to the total cost.

ALTERNATIVES TO DOMESTIC CONTENT

When an industry is in the midst of its most profitable year in history, with sales so brisk it is unable to meet the demand, the development of an "Automotive Industry Recovery Act" seems redundant. Yet many in the government and in the private sector have asked repeatedly for an alternative measure to domestic content. The time restrictions place on HR 1234 by its unusual parliamentary ground rules do not permit full development of an alternate legislative program. AIADA does, however, support legislation aimed at making redress against unfairly traded goods more accessible to injured industries and, in particular, legislation that would establish international ground rules for investment policy.

Automobiles have never been unfairly traded in the United States and the imported automobile industry has nothing to fear from more aggressive enforcement of international agreements covering such offenses as subsidized exports and dumping. We caution the committee, however, against further weakening standards for establishing injury from fairly traded goods. Such tinkering with international ground rules would result in a barely disguised protectionism that could do severe damage to the world trading system and cripple the American export industry, the world's largest.

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[1] Based on Congressional Research Service studies.

Steps the Congress might consider to insure the permanence of the auto industry's current robust recovery would include:

1. Tax changes that will make the United States as attractive for capital investment by the Big Three as foreign countries such as Spain, Portugal, Austria, Korea, Taiwan, Argentina, Mexico, et al:

a. Congress should investigate the now-legendary $80 billion in capital investment the U.S. auto industry has expended in new plants and equipment since 1979 to find how much of this investment has been made abroad. Our figures would indicate about forty percent.

b. There should be a moratorium on taxation of repatriated earnings from foreign sources, to encourage the auto manufacturers to bring home their substantial profits from abroad, rather than re-investing them there, or transferring them to tax havens.

2. Rather than attempting to force foreign investment here through such clumsy devices as domestic content, Congress should enact incentives to bring such investment into this country.

3. Congress should authorize an authoritative study of the real effect of currency exchange rate fluctuations on exports and imports, so that monetary and fiscal policies could take into account the influence they have on trade.

4. To insure lasting competitiveness for the domestic industry, Congress should examine anti-trust exemptions for research and development.

5. Congress could establish a government-industry-labor committee to develop a comprehensive auto strategy, involving development of U.S auto export potential.

6. A realistic trade adjustment assistance program is needed, one that retrains workers for new jobs and helps create the demand for those jobs.

7. The need for greater capital by the industry could be answered by a type or Reconstruction Finance Corporation for the auto industry.

8. A regional development program is needed, to bring new industries into the industrial heartland, replacing the older smokestack industries where the employment potential has been eroded.

CONCLUSION

It is the responsibility of this Congress to substitute for government policy that seeks to avoid international competition, policies designed to meet such competition. We need, for example, public programs that ease transition of its work force into skill-sensitive production.

We must find ways to substitute greater job security for the spiral of ever-increasing labor costs.

We should investigate the restructuring of our corporate tax system into a Value Added system, to bring us into harmony with the rest of the industrial world.

Our challenge is to adapt to the new conditions of the world market and not to seek to preserve the status quo.

Chairman GIBBONS. Our next witness is from the Automobile Importers of America, Mr. George Nield.

STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA, INC., ACCOMPANIED BY BRUCE AITKEN, COUNSEL

Mr. NIELD. With your permission, Mr. Chairman, I will summarize my prepared statement and I would ask the full text be included in the record.

Chairman GIBBONS. It certainly will be.

Mr. NIELD. Mr. Chairman and members of the subcommittee, I am George Nield, president of the Automobile Importers of America, Inc. [AIA]. AIA is the association of major automobile importers in the United States, and a list of its members is attached. Accompanying me is our counsel, Bruce Aitken, of the firm of Busby, Rehm & Leonard.

We are the association of eight European and seven Japanese companies that import 92 percent of the nondomestic automobiles and light trucks that are sold in this country. Our members are

unanimously opposed to H.R. 1234. Our message to you is simple: Local content is neither legally nor economically justified. Recognition of this and therefore opposition to the bill is growing.

A list of more than 70 agricultural, business, and consumer groups on record with the Congress against local content legislation is attached to my written statement.

Only the AFL–CIO and the United Autoworkers are on record supporting it.

The deficiencies of H.R. 1234 have been described in detail by many witnesses who have appeared before Congress, last year and earlier this year, and who are overwhelmingly opposed to the bill. The amendments adopted to H.R. 1234 by the House Energy and Commerce Committee in June cannot hide these deficiencies. H.R. 1234 is a "jobs loss" bill. It would cause a significant increase in the price of motor vehicles. It would discourage investment in United States, and it would destroy the GATT system and invite retaliation against U.S. export industries.

My prepared statement discusses all these points in detail and I do not presume to discuss them now for I believe you and other members of the committee are fully aware of them. However, there are three subjects that I would like to mention briefly. First is legality. H.R. 1234 has no legal justification. First, it would constitute an outright violation of the GATT. The amendments offered by Representative Eckart and adopted by the Energy and Commerce Committee in June to cloud this issue are a transparent and unsuccessful attempt to construct a case for legality of H.R. 1234 under article XIX of the GATT.

The total inadequacy of this effort is analyzed in detail in my prepared statement. Furthermore, it is important to recognize that automobile imports from Europe and Japan are fairly traded. Past allegations of unfair trade practices have remained unsubstantiated and the U.S. auto industry has not even filed a complaint alleging an unfair trade practice in more than 7 years.

Then there is the question of need. If ever there was a time to argue against the adoption of legislation that would severely burden our consumers and our export industries that time is now. Domestic auto industry profits are establishing new records. They reflect the highest 6-month industry profits in 4 years. Further, Chrysler has been able to pay off the remaining $800 million of its federally guaranteed loan 7 years in advance.

General Motors has reported an increase in earnings during the first two quarters of 1983 of 240 percent above the same period last year; and Ford has disclosed earnings for the past two quarters at its highest level in 5 years.

Just last month, industrial analyst Maryann Keller predicted 1983 Detroit profits exceeding $5 billion, an all-time record.

Further, according to Wards Automotive Reports, domestic cars available for sale on August 31 of this year reached the lowest August level in 16 years. Clearly, production has been unable to keep up with demand for domestic cars. This production demand is, of course, being reflected in increased employment.

And finally, there are increases in wage levels. The Wall Street Journal reported on September 7 that the new Chrysler contract

will raise labor costs from the present $21 an hour to $27 an hour by 1985.

This is, of course, well over twice the U.S. average industrial wage and perhaps four times the nonindustrial wage level in this country. Obviously, Mr. Chairman, we are looking at a domestic industry that truly needs no protection from competition.

Then there are alternatives. AIA believes that Congress could consider a number of constructive proposals that would assist the domestic automobile industry if indeed it really needs assistance. For instance, Congress could evaluate whether the legitimate aims of the corporate average fuel economy [CAFE] standards could be achieved by adjusting these standards to reflect present fuel availability and consumer preference for the larger domestic vehicles.

Also, Congress could evaluate the extent to which present antitrust constraints impede cooperative research and development for continued improvement in the competitiveness of the domestic industry.

And, Congress could evaluate the extent to which automotive industry expenses related to product liability claims could be reduced by the enactment of uniform Federal standards regarding product liability.

To conclude my remarks, Mr. Chairman, the local content proposal has never been justified on legal or economic grounds. An ever-growing number of agricultural, business, and consumer interests have denounced H.R. 1234. It is time to abandon this destructive proposal and turn to a consideration of constructive measures to enhance the general economic recovery and preserve the dynamic recovery of the domestic automobile industry.

Thank you.

[The prepared statement follows:]

STATEMENT OF GEORGE C. NIELD, AUTOMOBILE IMPORTERS OF AMERICA, INC.

SUMMARY

1. Local content legislation would create net unemployment, increase automobile prices, and discourage foreign investment in the United States.

(a) H.R. 1234 is a "job loss" bill.

(b) H.R. 1234 would cause a significant increase in the price of motor vehicles.

(c) H.R. 1234 would discourage foreign investment in the United States.

2. Local content legislation would not promote the continued recovery of the domestic automotive industry.

(a) Imports are not the cause of past or present difficulties.

(b) H.R. 1234 would contravene the principle of comparative advantage.

(c) H.R. 1234 would destroy Detroit's "world car" strategy of obtaining parts from the most readily available and economic sources.

(d) H.R. 1234's "Advisory Council" would be ill-advised.

3. Local content legislation would destroy the GATT system, which has favored the United States.

(a) The United States has prospered under the GATT system.

(b) H.R. 1234 would repudiate and destroy the GATT system.

(c) The Eckart amendments are a transparent and unsuccessful attempt to "bootstrap" H.R. 1234 into GATT-legality.

4. The domestic automotive industry needs no protection.

(a) The domestic automotive industry in enjoying record profits.

(b) The domestic automotive market is expected to grow by 25 percent, with a disproportionate share of this increased market going to Detroit manufacturers.

5. Certain legislative measures to enhance and preserve the recovery of the domestic automotive industry should be evaluated.

(a) Lowering the corporate average fuel economy (CAFE) standards to better reflect fuel availability and consumer preferences.

(b) Amendment of the antitrust laws to facilitate joint ventures and joint research and development.

(c) Enactment of a value added tax system.

(d) Enactment of a federal product liability law.

STATEMENT

Mr. Chairman and members of the Subcommittee, I am George C. Nield, President of the Automobile Importers of America, Inc. (AIA). AIA is the Association of major automobile importers in the United States, and a list of its member is attached. Accompanying me is our counsel, Bruce Aitken, of the Firm of Busby, Rehm and Leonard.

AIA strongly opposes H.R. 1234. More important, the realization of its potential destructiveness among agicultural, business and consumer interests has been growing. The amendments to H.R. 1234 adopted by the Energy and Commerce (E&C) Committee in June in no way diminish the destructiveness and illegality of this proposal. The overwhelming condemnation of H.R. 1234 in testimony before this Subcommittee, and the E&C Committee, bears witness to this fact. To date, a wide-ranging coalition of more than 70 organizations has called for the demise of H.R. 1234. A list of these is attached. Of those who have appeared before Congress, the UAW and the AFL–CIO stand alone in urging your support of this bill.

This bill is touted as a "jobs bill" and as a "fair practices" bill. In fact, it is neither, and it would undermine the recovery of the domestic automotive industry. We wish to make the following five points:

(1) local content legislation would create net unemployment, increase automobile prices, and discourage foreign investment in the United States;

(2) local content legislation would not promote the continued recovery of the domestic automotive industry;

(3) local content legislation would destroy the GATT system, which has favored the United States;

(4) the domestic automotive industry needs no protection; and

(5) certain legislative measures to enhance and preserve the recovery of the domestic automotive industry should be evaluated.

1. Local content legislation would create net unemployment, increase automobile prices, and discourage foreign investment in the United States

(a) H.R. 1234 is a "jobs loss" bill

The UAW claims that H.R. 1234 would save or create a million jobs in both automobile and related industries. This claim is false, since the bill wrongly assumes that it will attract new plant investment by foreign manufacturers and will not provoke retaliation or emulation by other countries. In fact, H.R. 1234 would create few automotive jobs. Any gains in automotive employment would be more than offset by the loss of American jobs of those that depend on motor vehicle imports, and those that are employed by American export industries vulnerable to foreign retaliation. The Congressional Budget Office (CBO) conservatively estimated that passage of H.R. 5133, the substantially identical predecessor of H.R. 1234, would cause a net loss of 66,000 U.S. jobs. A Department of Commerce representative confirmed this estimate in recent testimony on H.R. 1234 before a Subcommittee of the E&C Committee. Most recently, on August 1, 1983, analysis of H.R. 1234 by Wharton Econometric Forecasting associated (Wharton) concluded that the job losses from H.R. 1234 would be even higher than those forecast by the CBO.

(b) H.R. 1234 would cause a significant increase in the price of motor vehicles

H.R. 1234 is, in effect, a quota bill that will reduce the supply, and raise the prices, of motor vehicles. The CBO analysis of last year's bill predicted a reduction in imports of about 1.1 million units. A drop of imports of this magnitude will not only reduce the selection of automobiles available to the consumer but, in addition, will inevitably produce substantial retail price increases on all cars. The CBO estimated an increase of about $500 per car. We believe this figure is conservative. The Wharton study has forecast a 10% increase in the price of automobiles if H.R. 1234 is enacted. We invite the Subcommittee to take a look at the real world effect of this sort of legislation, as reflected in the prices of automobiles in such countries as Australia and Brazil. In short, H.R. 1234 would exacerbate the "sticker shock" from which consumers are only now recovering.

(c) H.R. 1234 would discourage foreign investment in the United States

Foreign automotive manufacturers have already made substantial investments in the United States, and further investment is underway. This is because both the laws and policies of the United States give domestic and foreign firms the necessary confidence that our climate for trade and plant investments will remain relatively favorable. These investments are based on sound economics, rather than legislation.

In addition to their investment in distribution and sales organizations—which employ more than 165,000 workers in the United States—foreign automobile companies have already invested over $2.5 billion in this country. Volkswagen has invested over $600 million in plants in Westmoreland, Pennsylvania, with 3,000 employees, South Charleston, West Virginia, with 550 employees, and Ft. Worth, Texas, with 300 employees. In addition to its over $35 million investment in motorcycle production, Honda is investing over $250 million in an automobile plant in Marysville, Ohio, which began production last year and will produce 150,000 cars per year by mid-1984 and have 2,000 employees. Nissan is investing $660 million in its Smyrna, Tennessee, plant which will begin production this summer and, ultimately, produce 156,000 trucks per year and have 2,650 employees. Toyota's Long Beach, California, truck bed assembly plant represents an investment of $50 million and has 400 employees. Subject to U.S. Government approval, it is entering into a joint venture with GM at Freemont, California, which will cost Toyota an estimated $150 million. Daimler-Benz has acquired Freightliner Corporation, with over 400 employees, for $250 million and a truck assembly operation in Hampton, Virginia, with 100 employees, for over $8 million. Volvo's investment in production-related plant and equipment, with 2,432 employees, amounts to more than $97 million. Renault has invested $600 million in non-controlling positions in American Motors and Mack Trucks.

Enactment of H.R. 1234 would destroy this favorable climate and could have an adverse impact on foreign automotive investment in the United States. Nissan and Honda, for example, both testified last week before this Subcommittee that the viability of their U.S. operations would be threatened if H.R. 1234 were enacted.

2. Local content legislation would not promote the continued recovery of the domestic automotive industry

(a) Imports are not the cause of past or present difficulties

Automobile imports from Europe and Japan are fairly traded. Past allegations of unfair trade practices have not been substantiated, and no formal complaint of an unfair trade practice involving imported automobiles has been filed in more than seven years.

Not only are they fairly traded, but imported automobiles have been found not to be the major cause of the past difficulties encountered by the domestic automobile industry. In 1980, the U.S. International Trade Commission (USITC) determined that the major cause of these difficulties was the overall decline in automotive consumption, from which the domestic industry is now recovering.

An amendment to section 2 of H.R. 1234 adopted by the E&C Committee inserted a "finding" which baldly asserts that automotive products are being imported in "such increased quantities and under such conditions as to cause, or threaten to cause, serious injury to the domestic manufacturers." This provision is factually fatuous and legally ludicrous. Not only were imports not the cause of past difficulties, as the USITC found in 1980; but imports presently are: (a) not increasing and (b) not the cause of any difficulties to the domestic industry. If Detroit has any present difficulty, it is its own inability to satisfy demand, as Automotive News confirmed in a front page story on August 29, 1983. As to the future, as Lee Iacocca stated earlier this month, the outlook "never looked better."

(b) H.R. 1234 would contravene the principle of comparative advantage

Certain testimony before this Subcommittee, as well as H.R. 1234 itself, are premised on the theory that exporters to a foreign market should be required to manufacture in that market. This is economic nonsense. Its implementation would destroy the principle of comparative advantage that has permitted our strongest export industries, like aircraft and agriculture, to succeed.

(c) H.R. 1234 would destroy Detroit's "world car" strategy of obtaining parts from the most readily available and economic sources

Local content legislation would hurt, not help, the Detroit companies, as the Congressional Research Service concluded in its report of July 15, 1982, on H.R. 5133. It would go far to destroy world trade in parts and subassemblies and thus would undermine Detroit's strategy of developing "world cars" that enable producers to use

less costly parts and produce more efficiently. By this strategy, General Motors, Ford, Chrysler and Volkswagen have been able to introduce new and fuel-efficient models on a timely basis to meet consumer demand. In particular, enactment of H.R. 1234 would prohibit the Detroit manufacturers from buying parts from the most readily available and economic sources. By doing so, it would render their vehicles less competitive in U.S. and world markets. As the September 30, 1982, issue of "Detroit News" said:

> Too, the legislation would lock domestic auto makers into the present cost structure, preventing competitive pricing through use of cheaper foreign components. Obviously, it would wreck "world car" production strategies.

(d) H.R. 1234's "Advisory Council" would be ill-advised

An amendment to H.R. 1234 adopted by the E&C Committee added section 4(b), which would establish an "Advisory Council" which would purport to play a role in the development of policy related to the automotive industry. Such a Council would be ill-advised, since it would be labor-dominated (5 of 13 members) and perhaps illegal. Despite an attempt by Rep. Ottinger to remedy this deficiency during the E&C Committee markup, the Council may not meet the requirement of section 5(b)(2) of the Federal Advisory Committee Act (5 U.S.C. App. 5(b)(2)) that the Council be "fairly balanced." This test has been the subject of recent litigation. We urge the Subcommittee to explore this issue in detail.

3. Local content legislation would destroy the GATT system, which has favored the United States

(a) The United States has prospered under the GATT system

In all but two years since the 1948 GATT—1977 and 1978—our trade in goods and services has been in surplus. In 1982, that surplus totalled $16.5 billion. In other words, under the GATT system we have sold more goods and services than we have bought.

The current merchandise trade deficit has been offered as a justification for the abandonment of the GATT system. This argument is illusory, not only because it ignores trade in services but also because petroleum imports are almost solely responsible for the merchandise trade deficit. Only once in the last 18 years has the United States had a merchandise trade deficit after discounting petroleum imports.

(b) H.R. 1234 would repudiate and destroy the GATT system

H.R. 1234 would violate both the GATT, which is the foundation of the international trading system, and treaties of Friendship, Commerce and Navigation (FCN), which are the legal basis for commercial relations with a number of our major trading partners. Enactment of H.R. 1234 would thereby declare to the world in no uncertain terms that the United States is fully prepared to repudiate its international obligations and to disregard the rule of law in international commerce. Inevitably, other countries would abandon the principle of free trade and would resort to expedient devices for short-term commercial benefits.

H.R. 1234 would be contrary to Article III, Paragraph 5, and Article XI, Paragraph 1, of the GATT—its "national treatment" and anti-quota provisions, respectively. Similary, H.R. 1234 would violate the "national treatment" provisions of our FCN treaties with such countries as Italy, Japan and West Germany. By violating these provisions, H.R. 1234 would be attacking two of the most vital principles that support the international trading system. The principle of national treatment assures that imported products will not be unfairly discriminated against in their sale and distribution. The prohibition against quotas requires countries to use tariffs rather than quotas. Tariffs are, in principle, less restrictive and can be reduced through multilateral trade negotiations.

In short, as Rep. Florio—an E&C Committee supporter of H.R. 1234—indicated in a June 6, 1983, "Dear Colleague" letter: "H.R. 134 files in the face of our international trade agreements."

U.S. export industries would be hurt by the enactment of H.R. 1234 in at least four ways. First, foreign countries now buying U.S. export would have fewer dollars and therefore would buy less from us. Second, customers abroad would shift their purchases to non-U.S. suppliers. Third, foreign countries could retaliate under the GATT by imposing discriminatory restrictions on imports from the United States. Fourth, and most important, foreign countries are likely to emulate the United States and enact their own local content legislation that would discriminate against U.S. exports.

(c) The Eckart amendments are a transparent and unsuccessful attempt to "bootstrap" H.R. 1234 into GATT-legality

In June, the E&C Committee adopted two amendments to H.R. 1234 offered by Rep. Eckart in a specious attempt to "muddy the water" regarding the outright GATT-illegality of H.R. 1234. Neither this Subcommittee, nor the Congress as a whole, should be misled by these provisions. One amendment is the provision. One amendment is the provision offered by Rep. Eckart adding section 2(a) to the bill, and containing language which "finds" that imports are the cause of Detroit's problems.

This is a transparent attempt to "bootstrap" H.R. 1234 into GATT-legality under Article XIX, which permits imports of a product to be restricted if that product is being imported in such increased quantities as to cause or threaten serious injury to domestic producers.

For two reasons, however, section 2(a) fails to meet the tests of Article XIX. First, Article XIX, like our own escape clause, presumes an economic study to determine whether, in fact, increased imports are causing or threatening serious injury to a domestic industry. A bald and unsupported conclusion like that in section 2(a) cannot constitute a bona fide compliance with Article XIX. Indeed, that conclusion is clearly rebutted by the 1980 determination of the USITC that the recession was the primary cause of Detroit's problems. If the USITC were to reconsider the issue today, when car sales are improving, it would probably find no serious injury and therefore not even have to reach the issue of causation.

Second, Article XIX anticipates that any import restriction imposed thereunder will be temporary. H.R. 1234 to model years 1985 and 1986 and every year thereafter.

Even if, however, local-content requirements were permissible under Article XIX, the United States would be required to grant compensation or suffer retailiation. This is an issue that deserves greater public airing and your Subcommittee's close scrutiny.

The E&C Committee also adopted an amendment offered by Rep. Eckart which added section 2(c) to the bill. This amendment contains two key parts. The first is a "reverse-Fenwick" provision indicating that Congress intends that nothing in the Act violates our international obligations. This is a legally meaningless provision that is designed to cloud the GATT-illegality of the bill. It is an attempt to preempt an amendment like that offered by Rep. Fenwick to H.R. 5133, and adopted by the full House in December, which rendered inoperative any provision of the bill in violation of our international agreements.

The second is a provision which apparently attempts to strip the courts of jurisdiction to resolve issues related to the GATT-illegality of the bill. As the Minority E&C Committee Report on H.R. 1234 indicated:

"Section 2(c) is an effort to deny Federal courts the jurisdiction to hear claims that domestic content, as applied, is inconsistent with our treaty with Japan and with the GATT.

If, as the supporters of the amendment assert, this provision has no effect on the jurisdiction of U.S. courts, it is unnecessary. If, as we suspect, it is an effort to place an additional hurdle in the way of an aggrieved party seeking to determine in U.S. courts, whether this statute is consistent with our international obligations, it is a dangerous effort at court-stripping."

In addition to the legal and even Constitutional issues raised by section 2(c), it is a transparent and unsuccessful attempt to circumvent the obvious GATT-illegality of H.R. 1234.

4. The recovery of the domestic automotive industry is, in fact, underway

(a) The domestic automotive industry is enjoying record profits.

As indicated on the attached chart, first half profits in 1983 indicate that the domestic industry's profitability as a whole has been restored. In May, General Motors announced first quarter 1983 profits of $653.1 million—its largest quarterly profit in nearly four years—following $128.3 million in profits for 1982 as a whole. It recently reported second quarter profits of $1.040 billion. Ford reported profits of $211.2 million for the first quarter of 1983, and $542 million for the second quarter of 1983, following a loss of $658 million in 1982 as a whole. Chrysler announced a first quarter 1983 profit of $172.1 million—its highest quarterly profits in history until that record was broken by second quarter profits of $310.3 million. This followed profits for 1982 as a whole of $170.1 million.

These first half profits reflect the recovery of the Detroit manufacturers. As reported in the April 25, 1983, "Automotive News", General Motors stated that "the fundamentals are in place for a recovery year". Industry analyst Maryann Keller of

Vilas-Fischer Associates, recently forecast GM/Ford/Chrysler profits for 1983 as a whole totalling over $5 billion. This recovery is likely to be translated into continued profitability, since, according to the September 15, 1982, issue of "Financial World", General Motors, Ford and Chrysler have reduced their aggregate breakeven production level for 1983 to 9.1 million cars and trucks—25 percent below the 1980 level. We believe that this increased efficiency is the direct result of import competition.

(b) The domestic automotive market is expected to grow by 25 percent, with a disproportionate share of this increased market going to Detroit manufacturers.

The principal factors that will preserve the recovery of the domestic automotive industry over the long term are the continued recovery of the economy as a whole and an increase in the automotive market. Industry analysts such as Data Resources, Inc., Lehman Brothers, and Merrill-Lynch have predicted recently that the 1982 domestic market of less than 8.0 million car sales and 2.4 million truck sales will increase by over 30 percent during 1983 and 1984 to a level of about 10.0–10.5 million car sales and 3.5–3.6 million truck sales. Just last week, Chrysler Executive Vice President Benett E. Bidwell made a similar prediction. Chase Econometrics is even more optimistic. In May, it predicted increased car sales to 9.4 million in 1983 and 10.8 million in 1984.

Moreover, these analysts predict that the domestic industry will capture a disproportionate share of this increased market, with the domestic industry share increasing by 35–40 percent, and imports by only 15–16 percent. Specifically, domestic care sales are expected to increase from 5.7 million to 7.6–8.0 million, with domestic truck sales increasing from 2.1 million to 2.8–2.9 million.

In short, without enactment of any legislation and before H.R. 1234 could even be implemented, the domestic industry's sales and profits, and its share of the automotive market, are expected to grown substantially. Its confidence in the future is borne out by the fact that its production of cars and trucks grew from 1,481,930 in the first quarter of 1982 to 1,969,417 in the first quarter of 1983—a significant increase of about 33 percent.

5. Certain legislative measures to enhance and preserve the recovery of the domestic automotive industry should be evaluated.

The domestic industry in regaining its competitiveness, and the automotive market is recovering. These factors—not protectionist legislation—will restore the long term vitality of the American automotive industry. In addition, with respect to not only the automotive industry, but the economy as a whole, the remaining problem is that of unemployment. Congress recently attacked this problem directly by appropriating $4.6 billion for public works, including $217.5 million for employee retraining, and $5.33 billion for the replenishment of the unemployment trust fund. Obviously, this effort should be continued, particularly by evaluating ways to improve the existing retraining program in our vocational education system ($6.5 billion annually), the Private Industry Councils established in 1978 and the Job Training Partnership Act of 1982 ($3.8 billion for 1983).

In addition, Congress should evaluate the following constructive proposals that would assist the automotive industry.

(a) Lowering the corporate average fuel economy (CAFE) standards to better reflect fuel availability and consumer preferences should be evaluated

In 1975, certain corporate average fuel economy (CAFE) standards were enacted. Each company was thereby required to average the miles per gallon (mpg) of all its vehicles sold in each model year and, if below the CAFE standard, to pay penalties for all vehicles sold.

In recent years, compliance with the CAFE standards has posed no substantial problems for Detroit because consumer preference shifted toward smaller cars. With higher fule prices, consumers demanded higher mpg cars. Now, however, the CAFE standards are reaching critical levels. At the same time, Americans are beginning to return to larger cars and accept the higher costs of driving these vehicles. In addition, fuel prices are declining, and there is no longer a shortage.

Congress may wish to evaluate whether the legitimate aims of fuel economy standards could be achieved by lowering the CAFE standards to the more moderate levels contained in the Energy Tax Act of 1978, or such other levels as Congress may determine to be appropriate.

(b) Amendment of the antitrust laws to facilitate joint ventures and joint research and development should be evaluated

As suggested by William C. Norris, Chairman and Chief Executive Officer of Control Data Corporation, in the April 11, 1983, issue of "Business Week," duplication of research and development efforts among U.S. companies handicaps them in world markets. This is especially true with respect to the four major U.S. automobile companies. A principal reason for this lack of cooperative research and development--even in meeting U.S. emission control and safety requirements—has been the very real fear of entanglement in the antitrust laws with their criminal and treble damage sanctions. Mr. Norris Stated:

> Instead of sometime permitting technological cooperation, these laws should be changed to encourage it. Antitrust laws and Justice Dept. guidelines on compliance discourage companies from trying to cooperate. They require lengthy and complex analysis. Even then, in virtualy every situation, legal opinions are couched in varying degrees of ambiguity.

Cooperation among automobile companies and among their suppliers in research and development, and, in some cases, production would benefit both the Detroit companies and their customers. Its net result will be less expensive and better cars. Such cooperative research should not raise the concerns that might have been appropriate when the antitrust laws were first enacted, since there is now far more competition in the marketplace, in large part due to the import automotive industry.

A number of bills to permit joint research and development are now before the Congress. Congress should evaluate the extent to which present antitrust constraints impede the continued improvement in the competitiveness of the domestic automotive industry.

(c) Enactment of a value added tax system should be evaluated

U.S. exports of automotive products—and of other products—could be improved if the United States would adopt a value added tax system. Most industrial nations now employ such a system, under which a tax is imposed on the difference between the purchase and sale prices—the value added—of raw materials and components as they are successively sold. The tax is added to the sales price. Upon exportation, this value added tax is refunded, thus relieving exported goods of this tax burden.

Because the United States relies primarily on income taxes for its revenues, such a refund is not, in most cases, available. Furthermore, the GATT prohibits the refund of direct (income) taxes but permits the refund of indirect (value added and excise) taxes. The reason for this is that, in theory, excise taxes directly increase the price of the goods, whereas income taxes do not.

(d) Enactment of a Federal product liability law should be evaluated

In April, Rep. Broyhill (R-N.C.) testified before the Consumer Subcommittee of the Senate Commerce Committee that the House would address this issue following Senate action on S. 44. The bill is scheduled for Senate Commerce Committee markup next week.

This legislation would provide preemptive uniform federal standards regarding liability of manufacturers for claims against them for alleged product defects. At the present time, the product liability law of each state varies from that of other states, and no state statute fully defines the basic rules of product liability. This increases substantially the costs of processing product liability claims and, in some cases, awards against manufacturers because of "forum shopping." If enacted, this legislation is likely to result in the reduction of expenses related to product liability claims. Enactment of such legislation would be of considerable help to the Detroit manufacturers, as well as to AIA members, all of whom actively support it.

CONCLUSION

The local content proposal has never been justified on economic or legal grounds. An ever growing number of businesses and consumer interests have denounced H.R. 1234. The UAW and the AFL-CIO are increasingly isolated. Their proposal offends logic, law and the best interests of both the domestic automotive industry and the nation as a whole. The amendments adopted by the E&C Committee in June cannot hide the illegality and harmfulness of this bill.

It is time that the Subcommittee, and the Congress as a whole, abandon this destructive proposal and turn to a consideration of constructive measures to enhance and preserve the general economic recovery and that of the domestic automotive industry.

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Attachments: List of AIA members. List of organizations opposing local content legislation. Chart of Detroit companies' profits.

MEMBERS OF AUTOMOBILE IMPORTERS OF AMERICA, INC.

Alfa Romeo, BMW, Fiat, Honda, Isuzu, Jaguar Cars, Lotus, Mazda, Mitsubishi, Nissan, Peugeot, Rolls-Royce, Saab-Scania, Subaru, Toyota, and Volvo.

ORGANIZATIONS OPPOSING LOCAL CONTENT LEGISLATION

Aerospace Industries Association of America.
American Association of Exporters and Importers.
American Association of Port Authorities.
American Association of Retired Persons/Teachers.
American Electronics Association.
American International Automobile Dealers Association.
American Paper Institute.
American Retail Federation.
American Soybean Association
Asia-Pacific Council of American Chambers of Commerce.
Automobile Importers of America.
Automobile Parts and Accessories Association.
Automotive Products Export Council.
Beatrice Foods Company.
Business Roundtable.
Caterpillar Tractor Company.
Certainteed Corporation.
Chamber of Commerce of the U.S.
Colonial Sugar Company.
Computer & Business Equipment Manufacturers Association.
Consumers for World Trade.
Continental Grain Company.
Council for a Competitive Economy.
Council for the Advancement of Consumer Policy.
Delaware River Port Authority.
Direct Selling Association.
Emergency Committee for American Trade.
FMC Corporation.
Ford Motor Company.
General Motors.
Grain Sorghum Producers Association.
Imperial Sugar Company.
International Apple Institute.
International Association of Ice Cream Manufacturers.
International Hardwood Products Association.
International Longshoremen's Association—AFL/CIO.
Jacksonville Maritime Association.
League of Women Voters of the U.S.
Lockheed Corporation.
Maryland Port Administration.
Milk Industry Foundation.
Millers National Federation.
National Associating of Corn Growers.
National Association of Stevedores.
National Association of Manufacturers.
National Association of Wheat Growers.
National Automobile Dealers Association.
National Broiler Council.
National Council of Farmer Cooperatives.
National Customs Brokers and Forwarders Association.
National Farmers Union
National Foreigh Trade Council.
National Grange.
National Grain Trade Council.
National Retail Merchants Association.
National Soybean Processors Association.
National Turkey Federation.
Pacific Rim Trade Association.

Philadelphia Port Authority .
Port Authority of New York/New Jersey.
Port of Baltimore.
Port of Portland (Oregon).
Poultry and Egg Institute of America.
Scientific Apparatus Makers Association.
Semiconductor Industry Association.
The Boeing Company.
The Rice Millers' Association.
The U.S. Cane Sugar Refiners Association.
U.S. Council for International Business.
Volume Footware Retailers of America.
Volkswagen.
Washington Citizens for World Trade.
Xerox Corporation.

GM, FORD, CHRYSLER, AND AMC—PROFITS (LOSSES) BY QUARTER—1978–83

[Millions of dollars]

	GM	Ford	Chrysler	AMC [1]	Total
1978:					
I	$870	$466	$(120)	$3	$1,219
II	1,106	540	31	6	1,683
III	528	301	(159)	26	696
IV	1,004	282	43	26	1,355
Total	3,508	1,589	(205)	61	4,953
1979:					
I	1,257	595	(54)	32	1,830
II	1,188	512	(207)	15	1,508
III	21	103	(461)	11	(326)
IV	426	(41)	(376)	13	22
Total	2,892	1,169	(1,098)	71	3,034
1980:					
I	155	(164)	(449)	1	(457)
II	(412)	(468)	(536)	(85)	(1501)
III	(567)	(595)	(490)	(85)	(1737)
IV	62	(316)	(235)	(29)	(518)
Total	(762)	(1,543)	(1,710)	(198)	(4,213)
1981:					
I	190	(439)	(289)	(53)	(591)
II	515	60	21	(20)	576
III	(468)	(335)	(140)	(17)	(960)
IV	97	(346)	(67)	(47)	(363)
Total	334	(1,060)	(475)	(137)	(1,338)
1982:					
I	128	(302)	150	(51)	(75)
II	560	205	107	(69)	803
III	129	(325)	9	(31)	(218)
IV	145	(236)	(96)	(3)	(190)
Total	962	(658)	170	(154)	320
1983:					
I	653	211	172	(66)	970
II	1,040	542	310	(79)	1,813
III					
IV					
Total [2]	3,200	1,200	870	(100)	5,170

[1] Prior to 1980, AMC's fiscal years ended September 30. These data are reported here on an adjusted basis so that AMC's quarters are the same as the rest of the industry.
[2] Estimate by industry analyst Maryann Keller, August 8, 1983.

Sources: Annual reports for each company.

Chairman GIBBONS. Thank you, sir.

Our last witness is the American Association of Exporters and Importers, Mr. Greenbaum.

STATEMENT OF LEE A. GREENBAUM, CHAIRMAN, TRADE POLICY COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Mr. GREENBAUM. I am Lee Greenbaum, I am president of Kemp and Beatley, I am former president of the Association of Exporters and Importers.

We have about 1,300 U.S. company members engaged in the export, import and distribution of goods between the United States and countries throughout the world.

The multitude of products sold by our members cover a broad range from textile and apparel, chemicals, machinery, electronics, footware, and food to automobiles, wines and specialty items. In addition, many organizations serving the trade community, customs brokers, freight forwarders, banks, attorneys, and insurance firms, are members of AAEI.

In summary, this legislation would afford unprecedented permanent protection to U.S. workers in the automobile manufacturing and auto parts supplying industries and to auto parts manufacturers serving the domestic market. On the other hand, by doing the same things for which we successfully took the Canadians to a GATT trial, and for which we constantly scold various less developed nations, this legislation would reverse our international leadership for trade expansion on a multilateral basis.

This legislation would violate our treaty obligations to GATT and to Japan. This legislation would reduce farm and industrial employment on a net basis because of retaliation against U.S. exports.

This legislation would harm the long-term interests of U.S. auto industry according to Secretary Baldrige and to such experts as the GM and Ford officials who have testified previously on this legislation.

This legislation would increase costs to consumers of all autos, light trucks, and vans and reduce consumer choice.

This legislation would increase inflation. This legislation would subject Congress to pleas from other domestic industries for the same weakened section 201 standards accorded the auto industry.

The attempts to eliminate challenges to this legislation in the U.S. courts are also very strange and unwise.

On balance, the negatives are overwhelming even without considering the remarkable progress made by the U.S. auto industry and progress in domestic auto sales.

In regard to Representative Ottinger's testimony concerning his idea that his legislation would not violate GATT rules, we would just say that the GATT rules call for temporary import relief, while the escape clause has also permitted only temporary measures.

This law would provide for indefinite import relief.

The alleged harm to the U.S. auto industry has not been caused by adherence to a GATT obligation as required by the escape

clause. And third, the congressional findings, so-called finding, is unsupported by a factual record or even a comprehensive inquiry.

We share the concern about the yen-dollar relationship and we believe that interest rates have been a major factor in improved auto sales. We hope that all industries exporting and domestic industries will be benefited by further reductions in interest rates and by a control of fiscal policy which will enable us to enjoy a sounder yen-dollar relationship.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

The American Association of Exporters and Importers represents 1,400 U.S. company-members engaged in the export, import, and distribution of goods between the United States and countries throughout the world. The multitude of products sold by AAEI member companies cover a broad range from textiles and apparel, chemicals, machinery, electronics, footwear and food to automobiles, wines and speciality items. In addition, many organizations serving the trade community—custom brokers, freight forwarders, banks, attorneys and insurance firms—are active members of AAEI.

H.R. 1234, the "Fair Practices and Procedures in Automotive Products Act of 1983", is dangerous and misconceived legislation in that it attempts to relieve pressures on the automobile and automobile parts labor force, and on U.S. auto parts suppliers to the domestic industry, while wrongly assuming that this legislation will have no serious repercussions on other U.S. domestic and international interests.

The specific arguments against domestic content bills have been expressed in some detail in a number of studies and by other witnesses before this Committee. We need to restate them only briefly before turning to the special features of H.R. 1234.

1. The implementation of domestic content requirements on imported automobiles would reverse the international trade policies successfully adopted by the United States since World War II. A keystone of these policies has been reciprocal market access—an issue of concern to this Congress, the Administration, the trade community and to the nation at large. This nation has pressed for reciprocal treatment by urging other nations to reduce trade barriers and to open their markets. H.R. 1234, however, would place this nation in the awkward position of having effectively closed a major market. While this regressive act perhaps might be removed at some further date, the damage done to our credibility as a nation committed to open world trade would take decades to repair. Enactment of such a drastic change in U.S. trade policy would clearly signal to our trading partners that the United States no longer considers itself bound by GATT rules.

2. The provisions of this bill, despite the Eckart amendment, clearly violate Articles III and XI of the General Agreement on Tariffs and Trade and other treaties which specifically prohibit domestic content requirements.

3. By violating the GATT, the United States would subject itself to retaliation from affected trading partners. Certainly, they will not seek compensation from inconsequential trade sectors. The areas in which our trade is most competitive will be placed at risk. Estimates of the amount of U.S. exports vulnerable to retaliation have exceeded $15 billion. U.S. farmers, aircraft manufacturers, and producers of high-technology goods, among others, can ill-afford drastic reductions in their markets. Certainly, the United States cannot risk such injury to its domestic economy.

4. The world trading system is witnessing a dramatic increase in the imposition of domestic content requirements, particularly by less developed trading nations. The United States has strongly objected to these non-tariff barriers because of their effect on U.S. exports. Enactment of H.R. 1234 would nullify our attempts to seek their removal and—just as the bill seeks to keep foreign automobile exports out of the U.S. market—would result in the loss of key foreign markets to U.S. exports.

5. These extremely high costs to the domestic economy and to non-automotive trade sectors would be paid without conferring equal benefits on the U.S. automobile industry and its work force. One certain conclusion which can be drawn from the many studies done on the potential overall employment effects of H.R. 1234 and its predecessors is that we cannot expect wholesale rehiring of the unem-

ployed automobile work force. Government studies have indicated a net loss of jobs in the overall U.S. work force. No government study agrees with overstated employment predictions of the bill's proponents.

6. H.R. 1234 is virtually certain to damage the U.S. economy and raise costs to the consumer far out of proportion to the economic gains resulting from the rehiring of even 200,000 autoworkers. What will this nation have gained if increased employment in one labor sector is met by lost jobs in other sectors, serious increase in inflation, and decreases in world market access for U.S. agriculture and our vital growth industries?

7. The U.S. automobile industry and its work force should be assisted in a positive way. This domestic content bill is a negative sum solution. The United States should provide an economic and regulatory environment which facilitates the industry's current efforts to increase productivity and quality while maintaining competitive prices. We are not discussing an antiquated and moribund industry, but rather a dynamic group of companies which are showing the potential for regaining the highest levels of international competitiveness. Government solutions which damage the international economy will only impede the industry, while U.S. efforts to stimulate the international economy will aid the industry's efforts and benefit all U.S. citizens.

8. In its escape clause investigation of the automobile industry, the International Trade Commission found that imported automobiles were not a substantial cause of the domestic industry's difficulties. Thus, attempts to curb the trade in imported automobiles is ill-focussed and cannot resolve the real problems.

While an H.R. 1234 would prevent the U.S. auto industry from buying parts from wherever in the world sourcing is most advantageous, our foreign competitors will suffer no such restrictions. The demise of the U.S. "world car" would mean the end of any possibility of the competitive U.S. auto industry, the proponents of domestic content legislation claim to seek. This conflict between protection and competitiveness cannot be resolved, if domestic content auto legislation becomes the law of the land.

9. H.R. 1234 ignores the remarkable turn-around of the domestic automobile industry. Experts from the automobile industry have told Congress of the gains in sales and profits in the automobile industry which have followed 1983 improvements on both the demand and the supply sides. (Declines in interest rates have played a major role here, although U.S. interest rates above those facing our foreign competitors continue to dampen consumer demand, to raise U.S. investment costs above those of its competitors, and, most seriously, to give foreign competitors the major benefit of an over-valued dollar).

10. The Eckart amendment substitution of a Congressional "finding" of injury to the automobile industry for the Congressionally mandated rigorous ITC escape clause investigations would bring other import sensitive industries to Congress for the same treatment. Political pressures generated would be as unbearable as the results therefrom.

Despite the seriousness of the effects just described, AAEI is even more concerned about the more subtle damage the bill would do to the world trading system—a system this country has promoted and carefully nurtured for over thirty years. Enactment would not just invite others to engage in a trade war, it would also stand as a rejection of the discipline which is the underpinning of that system. It has been United States policy to exercise that self-discipline and to persuade by example. As a nation we have kept our markets open and have abided by the rules and purposes of the GATT. We have believed that as the largest trader in the world we could do more for ourselves in the long run by promoting that system and resisting temptations to violate its rules for short term benefits. We must lead the move for a strengthening, not a weakening, of GATT rules. The policy reversal contained in the bill would severely damage the GATT system, possibly to an irreparable degree.

While a whole series of government and private studies show that the on-balance results of domestic content automobile legislation such as H.R. 1234 are extremely negative, proponents of H.R. 1234 have gained support through their attempts to convince Congress that the Eckart amendment has made H.R. 1234 compatible with what GATT obligations they see, and therefore unlikely to call forth retaliation upon U.S. exports.

That H.R. 1234 supporters are doubtful of their case is shown by the clause in H.R. 1234 denying jurisdiction in disputes over H.R. 1234. If this jurisdiction clause is truly neutral, as some proponents claim, there would either be no need for the clause which states: "Nothing in this Act shall be construed to confer jurisdiction upon any court of the United States" in matters arising from H.R. 1234, or, alternately, could have read ". . . to confer or to deny jurisdiction . . ." Proponents

know that were H.R. 1234 to become law, pushing all remedies into international tribunals would delay the judicial overthrow of domestic content for many years.

An international trade panel of the GATT has already declared illegal the Canadian FIRA requirement that companies investing in Canada buy a certain percentage of their supplies from Canadian manufacturers. And this decision came in response to an American complaint! Now Congress has before it H.R. 1234, a law embodying these same illegal principles. Should H.R. 1234 become law, this country would be placed in the humiliating position of having its very own briefs in the FIRA case quoted against it, before the very same GATT tribunal!

Proponents of H.R. 1234, in the Majority Report of the Energy and Commerce Committee, seem to deny that the GATT is a binding obligation of the United States, instead seeing the GATT as an executive agreement which does not bind the United States as a treaty does. However, the then President had full legislative authority from Congress, (granted in the Trade Agreements Extension Act of 1945), when he negotiated the GATT, so that the GATT does have the same status as a treaty. Stated in another way, the President had in advance the advice and consent of the Senate when he negotiated the GATT. Having obtained the legislative grant of power to enter an agreement on tariffs and trade, the President entered such an agreement with the Constitutional power to make a fully binding agreement without post-agreement Senatorial advice and consent.

We quote some of the legislative history, to clarify the point further.

The GATT was negotiated under the authority of the Trade Agreements Act of 1945, which renewed the President's existing authority under the Reciprocal Trade Agreement Act of 1934.

That the 1934 law was enacted specifically to permit the creation of a binding executive agreement not requiring later advice and consent of the Senate to have the force of a treaty, is made clear by the following statement of Senator Walter George, (a statement made during the 1934 debate):

"If the contemplated agreement to be effective should require Senate ratification, there would be no need for the proposed legislation, inasmuch as the President would then simply negotiate a treaty which, if ratified by the Senate, would have the effect of changing the tariff rates."

"Authorities on foreign relations aspects of constitutional law see parallel cases in the Lend-Lease program, carried out under an executive agreement entered into pursuant to the Lend Lease Act, and to our post World War II agreement providing security assistance to Greece and Turkey, agreements entered into under prior rather than post legislative authority."[1]

(Since we do not wish to leave our statements on GATT having the force of a treaty and the compatability of H.R. 1234 with the GATT unsupported on these issues, refer to supporting texts in the Appendix.)

While the majority report on H.R. 1234 correctly claims that the Congressional Research Service (CRS) states that "some courts apparently refuse to give full legal affect to GATT since Congress never ratified it", the CRS gives misplaced reliance to the one case it cites. The District Court case[2] was affirmed on grounds other than the question of the treaty status of the GATT. (We cite in the Appendix six other cases and a law journal article by Professor John Jackson in support of our view).[3]

How, then does H.R. 1234 violate the GATT?

The domestic content requirements of H.R. 1234 directly violate Article III of the GATT. Paragraph 5 of Article III provides:

"No contracting party shall establish or maintain any internal quantitative regulation . . . which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources."[4]

There is no dispute that domestic content is inconsistent with this provision. Professor John Jackson, probably the leading American authority on the GATT, makes this point clearly in his treatise on the GATT:

"Mixing requirements received extensive consideration by the draftmen. For example, a requirement might be imposed that margarine contain at least 20 percent domestically produced margarine or butter. *This would violate the GATT obligation.*" [5] [emphasis added]

Domestic content also violates paragraph 4 of Article III, establishing the principle of "national treatment." Article III, paragraph 4 provides:

"The produces . . . of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable than that accorded to like products of national origin . . ."[6]

H.R. 1234 would deny the right to sell certain imported automobiles in the United States solely because of their foreign origin. In so doing, the bill would deny such automobiles the right to treatment no less favorable than U.S. automobiles, and thus would violate paragraph 4.

Article XIX of the GATT, commonly called the "escape clause," provides that a country, under certain circumstances, can suspend GATT obligations with respect to trade in a product if the product is being imported in such increased quantities as to cause or threaten serious injury to the domestic industry.[7] Section 2(a) of H.R. 1234, an amendment offered by H.R. 1234 proponents in the Energy and Commerce Committee, is a bootstrap effort to bring the bill within Article XIX with the simple statement that Congress "finds" automotive products are being imported in such increased quantities to cause and threaten serious injury to the domestic industry. This transparent device is legally insufficient for several reasons. First, Article XIX permits only temporary suspension of a GATT obligation, while H.R. 1234 by its terms will restrict imports indefinitely. Second, whatever injury the automobile industry has suffered (or will suffer in the 1980's) has not been caused by unforeseen circumstances and GATT obligations, both necessary prerequisites to Article XIX action. Third, the Congressional "findings" in H.R. 1234 are not supported by a factual record.

Article XIX provides that a country can suspend application of the GATT "to the extent and for such time as may be necessary to prevent or remedy such injury.[8] H.R. 1234, however, is permanent by its terms. It applies to model year 1985 and each model year thereafter. Moreover, the rationale of H.R. 1234—to effectuate a massive flow of foreign automaker investment into the U.S. involving billions of dollars—would represent, by its very nature, a permanent shift in worldwide production. Such action goes far beyond the limited scope of the Article XIX escape clause. Thus, H.R. 1234 remains a clear violation of the GATT notwithstanding the language of Section 2(a).

Article XIX applies only if increased imports and injury to an industry are cause by "unforeseen developments" and by adherence of the injured party to GATT obligations.[9] Legal scholars and other commentators agree that if these prerequisites are not met, a party cannot suspend its obligations under the terms of Article XIX.

In this authoritative treatise on GATT, Professor Jackson concludes that "the *absence of either* a GATT obligation with respect to a product or of an 'unforeseen development' leaves this prerequisite to Article XIX unfulfilled . . ." [10] Denneth Dam, another leading GATT authority and now Deputy Secretary of State, stated in his book on GATT:

"Causation must be established under each of three interrelated but different result of the concession sought to be suspended; that is to say, *there is no right to take action under Article XIX if the injury would have occurred in any event.*

"Second, the injury must be a result of unforeseen developments . . . .

"The third causal standard to be applied—which a U.S. lawyer might term 'proximate cause'—involves 'increased quantities of imports'."[11] [emphasis added]

The same position has been taken by other GATT experts, including Jan Tumlir of the GATT secretariat,[12] Gerald Meier of Stanford Univerity,[13] Jagdish Bhagwati of the Massachusetts Institute of Technology,[14] and Thomas Sawermilch.[15]

The Congressional "finding" in H.R. 1234 does not even assert that the condition of the domestic automobile industry has been caused by unforeseen circumstances and U.S. adherence to GATT obligations, perhaps because it is clear that such an assertion would not be true. The U.S. assumed its obligations under the GATT in 1948, and has granted no significant automotive products trade concessions in recent years. Thus, recent difficulties in the automotive products industry have not been cause by GATT obligations. On the contrary, in 1980 the U.S. International Trade Commission held that the most important causes of injury to the automobile industry were the recession and a shift in demand caused by perceived quality differences and consumer preference for more fuel efficient cars.

To support its argument that these prerequisites to Article XIX need not be met, the Energy and Commerce Committee majority report on H.R. 1234 relies exclusively on a letter prepared by the Congressional Research Service ("CRS"). This reliance is misleading and misplaced. First, the CRS was not even asked to comment on H.R. 1234. Rather, the Committee took out of context a CRS letter addressing H.R. 3113, a bill to create a special procedure for the ITC, after thorough inquiry, to determine whether the U.S. automobile industry is entitled to relief under the escape clause. That is hardly the same as the Congressional fiat in section 2(a) of H.R. 1234. Second, the central contention in the CRS letter is supported with almost no authority. The CRS contends that—

"[T]he requirements in the phrase "as a result of unforeseen developments and of the effect of the obligations incurred . . . under this Agreement" are apparently of no practical significance . . . ."

The CRS's sole support for this assertion is one sentence in an English legal treatise;[16] the CRS simple ignored the overwhelming preponderance of legal opinion, discussed above, that gives considerable weight to these requirements. Third, the CRS notes that under U.S. law the International Trade Commission ("ITC") is not required to make findings of unforeseen circumstances or causation by GATT obligations before recommending that the President grant escape clause relief. The CRS suggests that the absence of such a requirement means the U.S. need not comply with the prerequisites of Article XIX of the GATT. This is incorrect. As stated by the American Law Institute:

"The duty of a state to give effect to the terms of an international agreement to which it is a party . . . is not affected by a provision of its domestic law that is in conflict with the agreement or by the absence of domestic law necessary for it to give effect to the terms of the agreement."[17]

Thus, the U.S. can claim the protection of Article XIX only if the prerequisites to Article XIX have been met, and the prerequisites have not been met by the sentence of "findings" added in the Energy and Commerce Committee.

In an escape clause case, the ITC holds hearings and solicits extensive testimony on the economic issues of the case, including the industry definition, the existence of increased imports, and existence and seriousness of the injury to the domestic industry, the causal link between imports and injury, and the economic justification of various remedies. All parties to a dispute are invited to submit data for analysis by the ITC's professional staff and to present detailed, focused arguments on each of the key issues.

The process leading to the Congressional "finding" in H.R. 1234 stands in stark contrast. There were no hearings specifically focused on the individual issues of an escape clause case. Indeed, during hearings on H.R. 1234, the Subcommittee heard testimony indicating strong recovery by the domestic industry and a wide range of factors that may have contributed to its previous injury, including: general economic downturn, high interest rates, changing consumer preferences, perceived quality differences, imbalances in international currency rates, relative tax differences, oil prices, impediments to joint R&D resulting from U.S. antitrust laws and many other factors. Those hearings were neither intended nor designed to address specifically or systematically the many factual issues inherent in an escape clause determination. No briefs were submitted by interested parties, and no thorough analysis of the industry was undertaken. No report has been published justifying the findings in economic terms, and no record has been established.

The GATT requires that the necessary preconditions of escape clause relief actually exist, not that they merely be declared by a government body. The "findings" in Section 2(a) of H.R. 1234 have no substance, and therefore are likely to be challenged by the members of the GATT, both before a GATT tribunal and in terms of the retaliatory action against U.S. exports permitted under the GATT rules.

All the above being said, one must further remember that even if the Eckart device seeking to bring H.R. 1234 into conformity with the GATT requirements were successful, the right of retaliation by countries adversely affected would be in no way diminished!

The right of a party to suspend a GATT obligation under Article XIX in appropriate circumstances triggers a corresponding right of adversely affected parties to compensation. Thus, whether retaliation arises under the basis GATT enforcement provisions of Article XXIII or under the escape clause provisions of Article XIX, U.S. exports would be jeopardized by enactment of H.R. 1234.

Whenever a country invokes Article XIX to justify action otherwise inconsistent with its GATT obligations, adversely affected countries are entitled to suspend "substantially equivalent obligations or concessions" under the GATT.[18] For example, when the U.S. withdrew a GATT tariff concession on dried figs, citing Article XIX, it granted compensation to Greece and Turkey.[19]

In addition to violating the GATT, H.R. 1234 also violates our 1953 Treaty of Friendship, Commerce and Navigation with Japan, and other treaties with other nations which mutually guarantee national treatment to foreign products. (Across the board quotes and tariffs are exempted from such treaties.) This is undoubtedly true with respect to automobile parts as well as cars, and as the Treaty with Japan reads in part:

"Products of either party shall be accorded, within the territories of the other party, national treatment and most-favored-nation treatment in all matters affecting internal taxation, sale, distribution, storage and use."[20]

While this Treaty, ratified with the advice and consent of the Senate, provides that either party may take actions consistent with the GATT, other provisions of the treaty notwithstanding[21] there is no relief here for proponents of H.R. 1234, as we have seen that H.R. 1234 does indeed violate the GATT.

CONCLUSION

H.R. 1234 is a proposed law violating the whole thrust of U.S. trade expansion efforts and leadership. It violates the GATT and other treaties. It has negative effects on net employment, on the competitiveness of our automobile and automobile parts industries, and positive effects on the U.S. inflation rate, while decreasing consumer choices.

The American Association of Exporters and Importers joins a host of other concerned organizations—farm—trade—manufacturing—civic—consumer—and General Motors and Ford Motor company in asking that the House of Representatives defeat H.R. 1234.

APPENDIX

1. American Law Institute. *Restatement (second) of Foreign Relations Law*, 132, 138 (1965) and D. O'Connell, *International Law* 206–7 (1970).

2. *Sneaker Circus, Inc.*, v. *Carter*, 457 F. Supp. 771, 795 (E.D.N.Y. 1978), and 614 F. 2nd 1290 (2nd Cir. 1979).

3. a. *K.S.B. Technical Sales Corp.* v. *North Jersey District Water Supply Commission* 75 N.J. 272, 381 A 2nd 774, 778, appeal dismissed, 435 Vis. 982 (1977). "GATT is by virtue of the Federal Constitution, 'the supreme law of the land.' "

b. *Baldwin—Lima—Hamilton Corp.* v. *Superior Court*, 208 Cal. App 2nd. 803, 25 Cal Rpts. 798 (1962) (California statute held unenforceable because inconsistent with GATT).

c. *Calnetics Corp.* v. *Volkswagen of America*, 532 F. 2nd 674, 693 (9th Cir. 1976) cert. denied 429 U.S. 940 (1976). (Circuit Court directed District Court to fashion antitrust remedy consistent with GATT).

d. *Territory* v. *Ho*, 41 Haw. 565 (1957). (Territorial Statute invalid because unconstitutional and inconsistent with GATT).

e. *Walter Helm & Co.* v. *Hardin*, 449 F. 2nd 1009 (D.C. Cir. 1971). (Court considered whether certain agricultural laws violated GATT).

f. *China Liquor Distribution Co.* v. *U.S.*, 343 F. 2nd 1005 (C.C.P.A. 1964) cert. denied, 380 U.S. 962 (1965). (Court considered whether certain federal taxes violated GATT).

g. John Jackson, "The General Agreement on Tariffs and Trade in United States Domestic law," Mich L. Rev. 249 (1967). (Prof. Jackson concludes that the relevant portion of the GATT have the same status as a treaty under domestic law).

4. GATT, Art. III 5. 61 Stat. (5)(6), T.I.A.S. 1700, (1948) as modified by Protocol of Provisions Application, 62 Stat. 3679, T.I.A.S. 1890 (1948).

5. J. Jackson, *World Trade and the Law of Gatt* 289 (1969).

6. GATT, *Supra* note 4, Art. III, para. 4.

7. GATT, *Supra* note 4, Art. XIX (1)(a)(b).

8. GATT, *Supra* note 4, Art. XIX (1)(a).

9. GATT, *Supra* note 4, Art. XIX (1)(a).

10. J. Jackson, *supra* note 5, 559.

11. K. Dam, *The GATT* 101 (1977).

12. J. Tumlir, *A Revised Safeguard Clause for GATT?* 7 J. World Trade L. 404, 405 (1973).

13. G. Meier *Externality Law and Market Safeguards: Applications in the GATT Multilateral Trade Negotiations*, 18 Harvard International Law Journal, 491, 494 (1977).

14. J. Bhagwati, *Market Disruption, Export Market Disruption, Compensation and GATT Reform*, 4 World Dev. 989, 992–3 (1976).

15. T. Sawermilch, *Market Safeguards Against Import Competition: Article XIX of the General Agreement on Tariffs and Trade*. 14 Case w Reg. Journal of International Law 83, 94 (1977).

16. E. McGovern, *International Trade Regulation*, 230 (1982).

17. American Law Institute, *Restatement of Foreign Relations Law*, 140 (1965).

18. GATT, *Supra*, note 4, Art. XIX (3)(a).

19. U.S. Tariff Commission, *Operation of the Trade Agreements Program*, (8th Rep.) 55–57 (1955).

20. Treaty of Friendship, Commerce and Navigation, April 2, 1953. United States, Japan, Art. XVI(1), 4 U.S. T 2063, 2076 T.I.A.S. 2863.

21. Id. Art. XXII (1) 4 U.S.T. at 2079.
The section on GATT compatibility of the Eckart amendment and on other Treaty obligations is based on a study by Hogan and Hartson.

Chairman GIBBONS. Are there questions for the panel?

Mr. VANDER JAGT. Thank you, Mr. Chairman.

I would like to thank the participants on the panel for their contribution. I have a question for Mr. Nield.

You have European manufacturers in your membership and it is my understanding that this bill does not really affect European manufacturers. Are your European members also opposed to this legislation?

Mr. NIELD. Yes——

Mr. VANDER JAGT. If so, why, since they are not affected?

Mr. NIELD. Yes, Mr.Vander Jagt, the European manufacturers have indicated just as have the Japanese their opposition to this bill. The European manufacturers see this bill as a threat to the long-term health of their own industry as well as the threat to the world trading system and they feel very, very strongly in opposition to the bill, as do the Japanese.

Mr. VANDER JAGT. Many people say the bill invites retaliation. Others have testified that there would not be retaliation, that other countries have enacted similar legislation and the other countries have accommodated themselves to it.

In your opinion would there be retaliation?

Mr. NIELD. Let me say, Ambassador Brock previously indicated 100 percent likelihood of retaliation. I certainly agree with that. I think it is important to define just what is retaliation.

I see it as more than just the typical case of our Boeing airplane exports would be banned if incoming cars would be banned. That is one type. But there are more subtle forms of retaliation that would probably be even more prevalent.

It would be emulation, perhaps by other countries of our leadership in this direction. There would even be the simple loss of sales, fewer U.S. dollars going overseas. Fewer U.S. dollars coming back to buy our exports.

Mr. VANDER JAGT. Mr. McElwaine, you testified that a good way not to help the U.S. auto industry was to ban products from coming in and suggested that there were other ways that the suffering U.S. auto industry—even though it is recovering—could be helped. At that point you ran out of time.

Mr. Nield has given some suggestions as to how we might help the U.S. auto industry, what did you have in mind when you said that there are alternatives that the Congress should pursue?

Mr. MCELWAINE. We have a pretty long laundry list of alternatives, Congressman Vander Jagt. I will put them all in the written testimony, of course, but we would like to see as we have asked before, an end to the taxation of repatriated earnings from foreign subsidiaries in this particular area. We find repeatedly that the American companies are holding large reserves of capital overseas, which are not returning to this country, because they would be subject to taxation.

Their needs for capital are great. I think there should be at least a temporary moratorium on the taxation of repatriated earnings to

encourage them to bring this money back into the United States and invest it here rather than to repeatedly reinvest it abroad.

We hear a great deal about the effect of the American taxation system on our exports. I would certainly think the Ways and Means Committee should study the possibility of changes in our corporate tax structure which is under a great deal of study and attack at the present time. We might consider a value-added tax system ourselves to bring us into conformity with the rest of the world on corporate taxes which would help encourage exports by our manufacturers.

I can predict that at this point those who are now strongest in their denunciation of the value-added tax in use by other countries would be the first to oppose its adoption in this country.

There are many things such as this that can be done. A reconstruction finance corporation for the industry to help them acquire the capital that they have needs for; a regional development program which would bring necessary assistance to the impacted areas such as Michigan and the heartland of America which have been so devastated by the recent recession.

I believe Senator Hart proposed such a program yesterday and which has interesting aspects to it. Many things can be done but certainly none of the protectionist kind of bent we are talking with domestic content.

Mr. VANDER JAGT. Thank you very much.

I would like to thank each member. Would you like to add anything?

Mr. GREENBAUM. Also the State unitary taxation laws discourage investment in this country and if that could be eliminated it would be a helpful thing.

Mr. VANDER JAGT. Thank you all.

Chairman GIBBONS. Any other questions?

Mr. FRENZEL. I want to thank the panel for their testimony. I would ask unanimous consent that a letter sent to Congressman Florio by Consumers for World Trade in opposition to the bill be made a part of the record.

Chairman GIBBONS. Yes; at the same time without objection we have a number of other statements that we will make a part of the record.

Is there objection? Without objection, so ordered.

[The information follows:]

1346 Connecticut Avenue NW Washington D.C. 20036 (202) 785-4835

consumers CWT for world trade

February 17, 1983

The Honorable James J. Florio
2162 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Florio:

Consumers for World Trade (CWT) opposes the Fair Practices in Automotive Products Act (HR 1234), which was introduced by Rep. Dick Ottinger on February 2nd. As an organization concerned with the American consumer's stake in international trade policy, we wish to bring to your attention why this legislation would have a serious economic impact on consumers without substantial compensating benefit to the domestic auto industry or unemployed workers.

Primarily, the bill, by creating import quotas, would result in an artificial scarcity of automobiles that demonstrably have met the demands of a great many consumers in quality, performance and price. A severe reduction in imports would raise the price of imported cars. Prices of domestic autos would follow them up in response to an easing of competition and the inability to use cheaper foreign parts. In addition, this legislation would reduce the incentives of U.S. manufacturers to produce smaller, energy-saving cars which purchasers have indicated they prefer. Some American consumers would be forced to buy cars which may not meet their needs or their pocketbook. Others might elect not to purchase a new car at all, thus exacerbating the problems of the domestic industry.

Several studies were made in 1982 on the economic impact of domestic content legislation, specifically HR 5133. The results vary from an uncommonly low $333 more per car suggested by the Congressional Budget Office, to a 10% increase, or approximately $1,000 per car by the Department of Commerce and $1,300 by Harbridge House. In addition, the Council of Economic Advisers has estimated that each additional U.S. auto job created would cost consumers $100,000. The Department of Commerce and Harbridge House figures are close enough to validate each other, taking into account variances in assumptions about the various responses of foreign and domestic manufacturers. The Department of Commerce explains its findings in the following manner: Since less Japanese cars would be imported, there would be an increased demand for American cars. The industry could respond by increasing volume or raising prices. The 10% figure is based on the industry doing some of each.

CWT is also concerned about the jobs losses caused by the bill. The Congressional Budget Office estimates this transfer of unemployment at 104,000 jobs eliminated in such sectors as port workers, teamsters, employees of foreign car dealerships (approximately 65,000 jobs) and workers in other industries and agriculture who would be the victims of retaliation against American imports.

DIRECTORS
C. Fred Bergsten Joan R. Braden Doreen L. Brown John R. Frahm Isaiah Frank
J.M. Colton Hand Hendrik S. Houthakker Robert S. McNamara Gerald O'Brien William Matson Roth
Seymour J. Rubin Fred Sanderson Philip H. Trezise Lori C. Consadori, Executive Director

We would be pleased to furnish you any further information concerning this issue you may require or to speak to you personally, at your convenience, about any of the concerns we have brought up in this letter.

Sincerely,

Doreen L. Brown

Doreen L. Brown
President
Consumers for World Trade

DLB:k

Chairman GIBBONS. This concludes the hearing on H.R. 1234.

The record will remain open for statements to be included in the record until the close of business on Monday, September 19, 1983.

We appreciate today's witnesses appearing on such short notice. The full statements of all witnesses will be included of course.

The committee will now move its operation to room 1129 where we will go into markup session.

Let's all get up and move as rapidly as we can.

[Whereupon, at 11:56 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., September 15, 1983.

Hon. SAM M. GIBBONS,
Chairman Subcommittee on Trade, House Ways and Means Committee, 1111 Longworth House Office Building, Washington, D.C.

DEAR CONGRESSMAN GIBBONS: Farm Bureau, representing over 3 million member families, is concerned that farm exports could be put in grave jeopardy should H.R. 1234, a bill to establish domestic content requirements for motor vehicles sold in the United States, become law. This bill is viewed as the most protectionist of any legislation under consideration by the U.S. Congress. It does nothing to address the basic issue of how to increase U.S. productivity and the output per hour of nonfarm workers.

Farm Bureau believes that responsible trade legislation is needed which would strengthen the hands of U.S. trade negotiators, rather than protectionist legislation. We believe that H.R. 1234 would be viewed by our major trading partners as outright protectionist and would invite retaliatory measures by them.

If this should occur, exports of farm commodities and products which amount to $35 billion annually are likely targets. Japan, our best single customer for U.S. agricultural commodities, with about $6-$7 billion worth purchased annually, would be hard hit should domestic content legislation be passed. The European Community, which imports about $8-$9 billion worth of U.S. farm commodities and products each year, also exports automobiles to the United States.

We believe that the U.S. automobile industry can meet its foreign competition without the enactment of this protectionist legislation, which could result in greater economic loss in the U.S. agricultural sector than would be gained in the industrial sector.

We urge that you take into account the possible adverse impact on U.S. agricultural exports, foreign exchange earnings and trade implications when you vote on H.R. 1234.

Sincerely,

JOHN C. DATT,
Secretary and Director, Washington Office.

STATEMENT OF HON. LES ASPIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Chairman, the economic recovery now struggling to sustain itself has brought with it some rather encouraging signs for several of America's most essential industries. Prominent among these is the automotive industry; after several years of spinning its wheels, mired in recession, it is only now beginning to really gain ground along the road to viability and competitiveness in the marketplace.

But the damage done by the worst economic crisis we've endured since the Great Depression remains, and some very disturbing prospects loom just around the bend.

I believe the Fair Practices in Automotive Products Act of 1983—otherwise known as the domestic content bill—represents our best opportunity to correct the unfair trade practices that now exist and threaten to take us into another turn for the worse.

As you know, more than a million jobs have been lost in the automobile-related industries in the United States over the last five years—an intolerable situation aggravated by the recent sharp increases in auto imports. While total car sales sagged under the weight of a stagnant overall economy, import sales have grown rapidly. And within the next few months, three years of voluntary restraints on auto exports to the United States by the Japanese will end. With them will vanish one of the only protections our car makers have had against unfair trade. Even under the restraints, the Japanese share of America's auto market grew a dramatic 36 percent. If we do nothing while our chief competitors pull out all the stops, our market share will surely be eroded even further.

We in America have always worked under a very open policy of free trade—a policy far more generous than that of the nations we now welcome into our automobile market, the world's largest.

With the sole exception of the United States, all of the world's major auto-producing countries enforce stiff restrictions to defend their domestic automotive industries. In fact, the Europeans have strict import quotas. It seems fair, then, that we at least require these countries to put some of their manufacturing dollars into the market that provides them the tremendous profits they currently reap. Indeed, the economic times demand it, and so does the American worker.

In my own state of Wisconsin, where automobile manufacturing is an economic mainstay, unemployment has more than doubled over the past four years and now stands at almost nine and a half percent. In my own district, where two auto assembly plants are vital to the local economy, too many jobs have already been lost to imports. I know that the same holds true nationwide.

We have before us, in H.R. 1234, the chance to see that no more Americans are put out of work, that our partners in trade begin to play by some of the same rules we do and that a strong message is sent to the Japanese and others that America means business—not only for their interests, but for ours.

STATEMENT OF JULIAN C. MORRIS, PRESIDENT, AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION, INC.

The Automotive Parts and Accessories Association (APAA) is a trade association located in Washington, D.C., comprised of over 1,500 manufacturers, independent manufacturers' representatives, distributors, and retailers of automotive parts and accessories sold primarily, but not exclusively, in the "aftermarket." The aftermarket consists of products manufactured for the services provided to automobiles by manufacturers, distributors and retailers that are independent of the vehicle manufacturers.

The aftermarket is vital to the nation's economy, providing at least double the employment of the vehicle manufacturers and their dealers. We are hundreds of thousands of medium and large, but mainly small, manufacturers and others located in every state of the Union, producing and selling domestically in excess of $54 billion of parts, accessories and chemicals annually. Appendix A to my statement provides more details about the domestic aftermarket.

Mr. Chairman, I would like to present APAA's reasons for opposing the Fair Practices in Automotive Products Act (H.R. 1234). More importantly, I want to offer an alternative that APAA believes would save American jobs and equip foreign vehicle imports with American made parts and accessories.

The American parts industry continues to suffer the consequences of more than four years of depression in the domestic automobile industry. With sales of domestic passenger cars still well below 1978 pre-recession levels, and with historically unprecedented deferral of auto repairs and maintenance by the public, our financial

position in aggregate is not healthy. Soft sales have idled many plants and people in an industry where operating under capacity is most unusual. Japan's auto makers have exacerbated our industry's crisis by including little or no U.S. content in vehicle exports that not only dominate world markets but hold a hefty 22.6 percent share of the American marketplace.

The sharp drop in sales revenues and high interest rates have left our firms starving for capital. The long period of capital market instability has hurt all firms, but especially those small businesses—comprising more than half of America's 40,000 automotive suppliers—who are forced to finance their long term needs with volatile short term debt instruments. Our firms want to invest substantial capital in efficient, less costly production facilities in order to grapple with increasingly effective foreign competition. A new Commerce Department industry study forecasts that capital starved U.S. auto makers will source an increasing share of their original equipment parts from independent manufacturers and projects "greater participation by suppliers in the vehicle manufacturers' product development programs."

This reaffirms the conclusion of the Secretary of Transportation's 1980 report to the President on the automobile industry that: "In their move to economize, the leading automakers will be leaning heavily on suppliers for research and engineering development necessary to produce the better quality and less costly components of the future." The report adds that "suppliers unable to upgrade their facilities, take risks, or sponsor research will lost out to suppliers with competitive advantages of efficiency, size or technical know-how."

The industry desperately needs capital to engineer, design, and tool for new products; to adapt existing products for the latest model vehicles and cope with the proliferation of parts that comes with burgeoning proliferation in models from around the world. All of this must be accomplished at competitive prices and with the assurance of a return on investment.

UNITED STATES AND JAPAN FACE AUTOMOTIVE TRADE CROSSROAD

APAA believes that the recovery of the domestic automotive industry could be affected by redressing the mammoth automotive trade imbalance with Japan. To this end, APAA had steadfastly supported U.S. trade policy objectives of greater access to the original equipment and replacement parts markets in Japan, the U.S. and third countries.

In 1960, the U.S. produced over 52 percent of the cars made worldwide; Japan produced only 1.3 percent. In 1970, the U.S. share had fallen to 29 percent; Japan was up to 14 percent. By 1980, Japan had passed us as the frontrunner of car producing nations with over 24 percent of the world market; we were down to under 22 percent.

The unnatural growth in productivity and price competiveness of the Japanese auto parts industry is not simply a function of optimal management practices and production techniques. The Japanese vehicle manufacturers have a long established family relationship with most of their parts suppliers consisting of interlocking directorships and equity position, under the aegis of the Central Bank's traditional practice of selective access to credit. This has resulted in a highly nationalistic, inbred, protected and virtually impenetrable vehicle manufacturer-supplier environment in that country.

Harbridge House Vice President John B. Schnapp has researched the "really close, symbiotic relationships between the vehicle makers and their principal suppliers." According to Schnapp, "these relationships are manifested in investments, in loans, and in technological interchange." He adds that very often the auto makers "own more than token equity positions in their leading suppliers" and frequently act as a "source of loan capital to their suppliers and as a technological resource."

With "families of vendors surrounding each of the principal auto makers, Toyota and Nissan, Mr. Schnapp concluded that "there are relatively few truly independent parts makers."

With the title of the world's Number 1 auto producer under their belt, the Japanese have now set their sights on usurping our position as the world's leading parts producer. It plans to reach that goal in the 1980's according to a 1980 report by its Long Term Credit Bank.

Decades of protectionism, such as amazingly low tax rates, enormous asset depreciation and deferred taxes for costs of developing new export markets, kept competitors at sea. The Japanese government in a 1979 publication entitled "Your Market in Japan: Automotive Parts and Accessories" describes in part its nationalistic production incentives and industrial targeting:

"Developing and upgrading the means of transport is indispensable for the development of a country. Therefore, from the late 1950s on when the future of Japanese industry began at long last to look brighter, both the Japanese government and industry made an all-out effort to develop and nurture the motor vehicle industry.

"The auto-parts industry in particular had to be cultivated and strengthened as it is the foundation of the auto industry as a whole. At the outset, the Japanese auto-parts industry was a sector with a large number of small-size and financially weak firms. But with the help of various government measures, such as the Law for Temporary Measures for Promoting the Machinery Industry enacted to foster and strengthen fundamental industrial sectors in the machinery industry in Japan, the Japanese auto-parts industry achieved rapid growth."

The policies have paid off for the Japanese.

The toll for being locked out of the aftermarket for Japanese vehicles in Japan, here and in third countries has risen considerably in recent years as the worldwide car population fills increasingly with Japanese vehicles. In 1960, Japan exported 4.2 percent (7,000 units) of their domestic vehicle production. Today the Japanese export over 36 percent or nearly 4 million vehicles. By contrast we export less than 9 percent of our domestic production. More than 46 percent of the Japanese cars exported in 1980 ended up within the borders of the U.S. Only 1 percent of our U.S. car exports were able to penetrate Japan's home market.

U.S. NEGOTIATORS ATTEMPT TO OPEN ORIGINAL EQUIPMENT MARKETS

With the very survival of the aftermarket industry hinging on success in entering the Japanese original equipment and replacement markets worldwide, we applauded government efforts that led Japan to issue its 1980 Orderly Marketing Agreement for parts trade. A key element was a Japanese parts purchasing mission to the U.S. in September, 1980 and the subsequent Japanese commitment to purchase $300 million in American original equipment in 1981, with significant increases promised thereafter.

Although the huge $1 billion parts trade deficit with Japan in 1980 made the $300 million look somewhat anemic, nonetheless APAA welcomed the promise as a potentially important first step to better market access. Regrettably, the Japanese fell far short of even this modest goal.

Commerce Department figures for 1981 showed only $119 million in U.S. parts sales to Japan, a nominal increase over 1980's figure of $109.8 million, but a major step backward when adjusted for inflation. Japan, on the other hand, enjoyed auto related sales in the U.S. exceeding $1.8 billion in 1981, leaving the U.S. in a deficit position of more than $1.6 billion. Even more distressing is the fact that the much publicized tariff reductions on automotive products nearly exclusively covered labor intensive items that did not appear on the list targeted for purchase. Rather, the list that continues to interest Japanese auto makers includes energy intensive items such as glass or aluminum and from year to year their purchases of these products hover near the $100 million mark.

Most regrettably, Japan used its Voluntary Restraint Agreement on autos to excuse itself from its parts purchasing commitment and reneged on its commitment to meet with U.S. negotiators during 1981 and 1982 to monitor the mission's progress. Quite expectedly, the Commerce Department 1982 survey of U.S. firms that sought Japanese business showed the mission to be an exercise in futility. Exports to Japan in 1982 were a paltry $128 million. I have attached as Appendix B the complete set of the department's survey findings.

We contend and the Commerce Department backs us up that this staggering imbalance is not caused by the lack of quality or price competitiveness on the part of U.S. made products. Nor can the root of the problem be attributed to a strong U.S. dollar, high interest rates or U.S. apathy in developing the Japanese market.

The fundamental cause is Japan's longstanding policies and practices which encourage exports and discriminate against imports.

In spite of the recent demise of the Japanese import duty, the delivered prices of foreign vehicles in Japan remains significantly high. This is due to the import bias which tinges the Japanese commodity taxes; a tax which exempts exports but is imposed on imports. Then there are the certification requirements, local distribution methods, and road taxes which discriminate against the larger engines of U.S. models.

These obstacles combined with a panoply of other non-tariff barriers against U.S. origin parts—including the withholding of parts specifications developed behind doors closed to us; an unwieldy parts approval system; and that uniquely strong alliance between vehicle and parts makers—generally have conspired to prevent out-

side competitors from penetrating the walls of their safe and secure world. I have attached as Appendix C my 1980 testimony before the Senate Select Committee on Small Business detailing specific cases of non-tariff barriers.

The sixth wave of Japanese trade liberalization promises made in little more than a year hit last April. Industry analysts found nothing of value for the U.S. automotive and related industries in the earlier packages and express skepticism about the latest Japanese maneuver. Motor Vehicle Manufacturers Association President V. J. Adduci's appraisal of the proposed simplified import vehicle inspection calls it "substantially short of the desired objective of having a system in Japan which provides U.S. manufacturers treatment comparable to the treatment received by Japanese manufacturers in the U.S." Despite the fact that the U.S. exported only 3,562 passenger cars to Japan in 1982, down from a scant 7,742 in 1981, Japan is reluctant to reciprocate on the self-certification to safety requirements afforded its exports to the U.S.

It would appear that negotiations and agreements have not substantially changed the sad state of U.S.-Japan trade relations. Our manufacturers still face a general inability to penetrate the Japanese original equipment market.

EFFORTS TO OPEN AFTERMARKET FAIL

As the world fills with Japanese-made vehicles bearing little or no American equipment, American aftermarket suppliers are faced with constricting global replacement markets. Leading to further replacement market erosion is the unusually strong hold Japan's car makers have on their dealers in the U.S. and world markets, whereby they are coerced to stock only Japanese-made service parts.

Aftermarket barriers in the U.S. alone cost American suppliers billions of dollars in lost sales opportunities for items such as batteries, lights, fan belts, starters, tires, and so on. Cracking this market means so much to the vitality of our industry that American negotiators insisted that steps to open the dealership network be a component of Japan's Orderly Marketing Agreement. As with the other elements, it proved meaningless. When the Department of Commerce allowed to lapse the task of monitoring the original equipment purchases, the aftermarket issue became a casualty of neglect.

Letting Japan off the hook on its promise to open the dealership network was further exacerbated by a highly inaccurate Japanese commissioned study that said the independents' share of the import market in the U.S. was growing so fast that nothing more need be done. APAA fought for industry's right to review the study which was locked inside the Commerce Department for several months. Once APAA secured the study, we refuted it with our own critique which we have shared with the Administration and Congress. Our comprehensive analysis of the study is attached as Appendix D.

As former Assistant Secretary of State Robert Hormats testified in 1981 "this market (U.S. aftermarket) is one in which U.S. firms should be able to compete actively and successfully. But it has been very hard for American firms to penetrate this market, and Japanese firms appear reluctant to fully cooperate with them, while Japanese parts sell vigorously." Hormats added that Japanese claims of poor U.S. price and delivery simply do not apply when dealing with American suppliers on their home turf. Yet, a Department of Commerce suggestion to have U.S. made parts certified so that dealers of Japanese vehicles could purchase them has met with stiff Japanese resistance.

JAPANESE PRACTICE CLOSED DEALERSHIP NETWORK

Clearly, Japan's auto makers intend to foist on the U.S. and other markets the same closed distribution web it has woven for its home market. Indeed, in Japan there is almost no independent aftermarket as we know it. Harbridge House executive, John Schnapp, has cited the 1981 edition of "Guide to Japan's Auto Parts Industry" that concludes "the independent distribution channel is weak in comparison with vehicle dealer organizations." According to Schnapp, the author, Mr. Kenji Okochi, whose export company represents parts makers, describes the "reasons for this peculiar phenomenon." Chief among reasons offered is "that each vehicle maker signs an exclusive contract with the parts maker which may allow him to control the production of parts applications for his vehicle." By way of contrast, the U.S. aftermarket for domestic vehicles is so open that a 1980 study by A. T. Kearney revealed that only 18 percent of parts sales for GM passenger car applications were realized through franchised GM dealers.

Ironically, the closed distribution network has victimized Japanese parts makers who see a good thing in our open marketplace but do not know how to get at it. Mr. Schnapp describes their quandary:

"On the one hand, they recognize that the structure of our market is vastly different from the replacement parts market in Japan, and they see the need to adapt their own strategies to the differences existing in the American market. On the other hand, there are very strong pressures on them to avoid straining the relationships that they have created with their only customers who would like, of course, to channel most of the American sale of replacement parts through their own franchised dealers, much as they currently have succeeded in doing."

Still, Japan's parts makers have a leg up on our firms—tooling economics. Without the volumes assured by original equipment orders and faced with a proliferation of Japanese new car model series, it is virtually impossible for our firms to achieve the economies of scale necessary to produce economically for a particular application. The net effect is the exportation of our plant capacity and jobs to Japan.

APAA is encouraged by the growing Congressional awareness of the problems we have discussed. We believe that the Energy and Commerce Committee report on last year's act, H.R. 5133, truly went to the heart of the problem:

"The Committee regards the failure of foreign automakers to purchase more American-made auto parts very seriously. as a result Section 7 of the bill directs the Secretary of the Department of Transportation and the FTC to conduct a study to determine how to increase the use of American-made new and replacement parts by foreign manufacturers. The Committee intends for representatives of U.S. auto workers, parts manufacturers and vehicle manufacturers to be consulted in the development of this study."

We are especially gratified that the committee sensed not only the dangers of the closed U.S. aftermarket but seized as well on the critical question of how we might increase our sales of original equipment to foreign manufacturers. Unless these markets are opened, much of our industry's plant capacity and as many as 400,000 of the supply sector's half million unemployed will remain permanently idled.

LOCAL CONTENT REQUIREMENTS WOULD RETARD U.S. ROLE IN WORLD MARKETS

APAA believes that in the process of attaining the bill's purported objectives of curbing foreign sourcing by U.S. auto makers and encouraging foreign auto making investment in the U.S., the recovery prospects for U.S. auto makers and suppliers would be shattered.

Parenthetically, APAA disagrees with the assessment made before the House Energy and Commerce Committee by United Auto Workers officials that H.R. 1234 would not affect American aftermarket manufacturing. APAA's objections to H.R. 1234 are made from our perspective as a representative of both original equipment and aftermarket suppliers.

We are concerned that the bill's more stringent content test for U.S. auto makers—imposed from the outset—would damage their competitive posture in both domestic and foreign markets. H.R. 1234 disregards the emerging world car developments of the last decade that wrought a previously unforeseen and still largely ignored network of partnerships among car companies around the globe. These joint ventures and alliances (e.g., GM-Isuzu-Susuki, Chrysler-Peugot-Mitsubishi), were born of enormously high capital costs for the need to secure for participants both new vehicle types and components, and new markets.

One of the effects of this new era is an increase in vehicle and parts sourcing outside the U.S., particularly in areas with attractive low labor rates. In many of these countries (e.g. Mexico, Brazil) stringent local content demands guarantee that a preponderance of the products made will end up as exports. As a result, it is highly likely that in the years ahead the U.S. will experience an even greater influx of foreign sourced vehicles and components, and once traditionally American emblems will adorn vehicles made elsewhere in the world.

Every industry analysis we have seen supports the Secretary of Transportation. who in his 1980 report on the U.S. automobile industry projected that U.S. auto makers will "increase overseas parts sourcing from the present less than 5 percent to 10 percent by 1985 and 15 percent by 1990. Attempts to modify the decision-making behavior of U.S. firms by legislative fiat would jeopardize their strategy of reaching greater economies of scale necessary to contain production costs.

U.S. manufacturers must have complete flexibility in deciding how they will build competitively priced cars needed to command their rightful share of U.S. and foreign markets. Tne alternative is to be trapped in an ever-downward spiral of lower

production and sharply curtailed demand for American made original equipment and replacement parts.

Foreign firms benefiting from relaxed content requirements over the three year phase-in could capture even more ground in the battle for American market share. While hamstringing the component purchasing practices of American manufacturers, foreign firms could source freely, and they most assuredly would widen their production cost advantage. When we consider as well the floodgates that will open when the Voluntary Restraint Agreement ends, we believe those three years will prove especially damaging to American auto making and parts manufacturing.

Attainment of the legislation's second objective, the encouragement of foreign investment in U.S. auto making facilities, would also prove inimical to our interests. While American firms have selected a decentralized world car strategy, sourcing certain components from around the world, Japan has charted a centralized course that calls for building its world car at home. The Secretary of Transportation's 1980 report on the industry described Japan's strategy as:

". . . taking advantage of their domestic labor force, achieving low cost production through closely coordinated, tightly integrated and centralized production facilities, and then shipping the product around the world. Although assembled in other countries, even Japanese knock-down kits are dominated by Japanese made parts."

Once fully phased in, a number of analysts agree that many foreign firms could meet the content requirements without increasing their purchases of American parts and accessories. MIT auto analyst Martin Anderson has calculated that a number of foreign firms with relatively low sales in the U.S. "could collectively expand their imports by 1 million units with no added American content." Thus, a number of Japanese car makers, now stymied by the export restraint, could gain in our market while adhering to their world car strategy.

Making the situation even more grim for our industry are the potential responses H.R. 1234 might evoke from the behemoths of Japanese auto making, Toyota and Nissan. Should these and other larger firms choose to extend their presence into the U.S., we foresee little appreciable increase in their purchases of American made parts and accessories. This presence would not begin and end at the assembly line. Rather, foreign owned assembly lines would be fed by Japanese parts plants and the well established network of native suppliers. From this standpoint, we believe that the strict local content provisions of H.R. 1234 are undesirable. Under more balanced conditions, we would have little to fear from increased foreign competition within our borders. However, our current precarious industrial position puts us at a competitive disadvantage and renders a vital U.S. industry vulnerable to foreign domination.

In its report, "The Automobile Industry in the 1980's," issued in May, 1981, the Long Term Credit Bank of Japan boasted that during the 1980's Japan will become the world's leading supplier of auto components. The report claims that "the export ratios of most of the independent auto component companies will rise, and some of them are setting up production abroad. Even component companies which are subsidiaries of auto companies, especially those producing standardized components are developing their exports. Some of these companies have announced plans to go abroad with their parent companies."

Former Assistant Secretary of State for Economic Affairs, Robert Hormats, testified in 1981 that the Honda auto factory in Ohio and the Nissan truck plant in Tennessee were "expected to procure initially about 40% of their inputs, by value, from U.S. suppliers, with the possibility of future increases in such procurement." We have cause to fear that even these modest levels of U.S. content will not be attained. Already Honda has announced plans for certain Japanese suppliers to open plants near the Ohio factory. By way of explanation, Honda complains that it can not find adequate price competitive U.S. supply sources and is forced to revert to home suppliers.

In the case of one U.S. firm which sought Honda business, Commerce officials revealed that the 40 percent price differential between the Japanese and U.S. competitors was simply a function of the quantities requested from the U.S. firm. The lot size discussed with the American company was so much smaller than orders placed with Japanese sources that legitimate price comparisons are impossible.

And in early 1982, it was announced that the Japanese tire company, Bridgestone, had acquired a large Firestone truck tire plant in Nashville. The $52 million purchase sets the stage for the Japanese tire company to become the original equipment supplier of tires for 120,000 light trucks that Nissan Motors plans to build annually at its plant in that state. The Firestone plant, under-capacity because of a depressed market for U.S.-built light trucks, was an easy mark.

Should large firms decide that it is not cost-effective to undertake production in the U.S., the legislation would be tantamount to an import quota. Local content laws violate the General Agreement on Tariffs and Trade (GATT), and we believe that those victimized by such a law would be on solid ground in bringing a case of injury before the GATT Council. A finding on their behalf would result either in our having to negotiate a massive settlement for the loss of trade or they would be freed from the treaty to retaliate. Since exporting is a dire necessity to sustaining the future health of our industry, we are especially vulnerable. Retaliatory steps could take a tremendous toll as well on other industries vital to our nation's economy. Because protectionism only breeds more protectionism, we subscribe to analyses that show a local content law resulting in a net loss of 70,000 American jobs by 1990.

Rather than violating the law, our government ought to actively police other nations whose content laws rob Americans of jobs. Mexico, for example, boasts that its content requirements will boost Mexican parts exports from $640 million in 1979 to over $5 billion by 1985. Some 60 percent of these exports will head for the U.S. market, translating into the equivalent of 86,000 to 115,000 jobs in the United States auto and auto parts industry, according to a 1981 report by the U.S. Labor-Industry Coalition for International Trade. Interestingly, the Coalition, comprised of nine labor unions and seven corporations, strongly condemned performance requirements in all forms and urged the U.S. government with all due speed to resolve such inequities through GATT or other dispute settlement mechanisms available.

APAA BACKS PARTS PURCHASE INCENTIVE PLAN ALTERNATIVE

The emerging globalization of the auto industry, the need for car companies to obtain some parts outside the U.S. in order to reduce costs, and the shrinking of the domestic market, converge into a critical challenge for automotive parts and accessories suppliers. We must export more.

The challenge demands action in the form of incentives for foreign vehicle manufacturers to purchase U.S. made parts, rather than short sighted remedies that could well discourage this.

Thwarting our export efforts is Japan. Unlike the U.S., it belongs to the "one way trade" school of thought. While the Japanese inundate our markets, they will not afford high quality, competitively priced automotive products access to their huge markets.

We must stop the injury to our industry from becoming chronic. The times call for extraordinary and immediate steps.

To do so, APAA in concert with five other automotive trade associations that form the Automotive Products Export Council (APEC), has developed the Parts Purchase Incentive Plan.

Copies of a legislative draft of the Plan and analysis are attached to my statement as Appendices E and F.

We propose free trade incentives rather than trade restrictions. Participation in the Plan would be completely voluntry and open to manufacturers of all nations wishing to participate. Rather than repelling a nation's goods, we would make two way trade mutually beneficial. Had our Plan been in effect in 1982, foreign vehicle manufacturers could have saved $781 million on their exports to the U.S. They could have done so by purchasing an equivalent amount of U.S. made parts and accessories.

The Plan is a new way to promote automotive product exports—using an import vehicle duty credit to induce foreign-based auto makers to buy American products. The Plan would build on duty remission incentives in Item 807.00 of the Tariff Schedule that allow a vehicle manufacturer to deduct the value of U:S. content in a car from the car's landed value before the 2.8 percent duty is applied.

For example, a vehicle manufacturer in a foreign country may purchase U.S. automotive components for assembly into finished vehicles. If those automobiles of light trucks are sold in the U.S., the value of U.S. content added may be deducted from the total value. This would give the value for duty. Since the amount to be charged for duty is lower, the duty paid will be lower.

The exhibit shows motor vehicle imports under Item 807.00 from Japan.

1981 MOTOR VEHICLE IMPORTS (ITEM 807.00)

(In thousands of dollars)

Country	Total value	Duty free value	Dutiable value
Japan	$3,800,000	$22,000	$3,780,000

In 1981 vehicle manufacturers in Japan that imported components from the U.S. and made use of Item 807.00 duty remission saved $616,000 in duty. The savings came from assessing the duty on a smaller amount, having first deducted the value of the U.S. content.

Item (A) shows how the current law works. An average $5,300 Japanese car import with no U.S. content lands in the U.S. The 2.8 percent ad valorem duty rate would apply to the $5,300 total value. The $149 duty would make the landed cost of the vehicle $5,149. If the vehicle manufacturer has used $300 worth of U.S. compc nents, the $300 could be deducted from the $5,300 total value. This would give a dutiable value of $5,000. When the 2.8 percent duty rate applies to the $5,000, the duty owed is $140. The manufacturer has cut $9.00 from the duty . . . hardly a strong incentive to purchase U.S. goods.

Example (A):

CURRENT LAW—CARS

	U.S. parts purchased	Ad valorem value	Duty		Landed cost	Value of deduction
			Percent	Cost		
$5,300 car	0	$5,300	2.8	$149.00	$5,449.00	0
	$300	5,000	2.8	140.00	5,440.00	$9.00
	1,000	4,300	2.8	120.40	5,420.40	28.60

By purchasing $1,000 in U.S. automotive products, the landed cost would be $5,420.40. By using U.S. content for 20 percent of the vehicle, the manufacturer would save $28.60 in duty.

Example (AA) shows the same type of comparison for light trucks. With no U.S. content, the 25 percent duty rate applied to the average light truck's value of $4,200 adds $1,050 to the vehicle landed cost. Purchases of $600 would reduce the dutiable value from $4,200 to $3,600. Applying the 25 percent duty rate, the duty would be $900. This makes the vehicle landed cost $5,100. The manufacturer has saved $150 in duty by purchasing $600 of U.S. automotive products.

Example (AA):

CURRENT LAW—CARS

	U.S. parts purchased	Ad valorem value	Duty		Landed cost	Value of deduction
			Percent	Cost		
$4,200 light truck	0	$4,200	25.0	$1,050	$5,250	0
	$300	3,900	25.0	975	5,175	$75.00
	600	3,600	25.0	900	5,100	150.00

When the duties are high, as in the case of light trucks, vehicle manufacturers get much more bang for the buck out of the Item 807.00 remission. However, the low auto duty rate, scheduled to go lower, offers far less incentive to purchase U.S. automotive products. This is not the only important limitation of the current law.

It aiso requires the parts to return on vehicles to the U.S., causing American parts and accessories manufacturers to lose what otherwise could be valuable replacement parts sales for U.S. products destined for foreign markets.

Despite the limited incentive for purchasing car components under Item 807.00, the exhibit we looked at earlier shows a high level of interest by vehicle manufacturers in Japan. That level of interest given a limited program offers some exciting

prospects for use of our Plan. Under the Plan, the credit incentive would be much more generous. One important improvement to the law would spell the difference. Foreign-based auto makers could receive a credit against the vehicle duty owed—a dollar of credit for each dollar of U.S. product purchased. This credit approach would cut the tax, or duty, itself, rather than cutting the amount to be taxed as does the current deduction approach—a greatly enhanced incentive to buy American.

Example (B) shows a manufacturer using $100 in U.S. automotive products. The $5,300 value of the car would have the full duty of 2.8 percent assessed. The $149 in duty would then be reduced by the $100 of products purchased. This leaves only $49 in duty. the following lines show that the amount of dutiable value does not change as it does under current law. Rather, when $300 in purchases have been made the $149 duty is eliminated. The car lands duty free. Of course, the maximum credit allowed is the amount of duty that would normally be due. For a $5,300 car, regardless of the amount of product purchased over $149, the credit could never exceed $149.

Example (B):

PARTS PURCHASE INCENTIVE PLAN—CARS

	U.S. parts purchased	Ad valorem value	Duty		Landed cost	Value of credit
			Percent	Cost		
$5,300 car	$100	$5,300	2.8	$149	$5,349	$100
	300	5,300	2.8	149	5,300	149
	600	5,300	2.8	149	5,300	149

Example (BB) shows an average light trucks import with a total value of $4,200. The 25 percent duty is applied in each instance, and the duty owed is always $1,050. The credit against duty owed are shown for the various purchase levels of $100, $300 and $600. The maximum credit permitted is $1,050.

Example (BB):

PARTS PURCHASE INCENTIVE PLAN—LIGHT TRUCKS

	U.S. parts purchased	Ad valorem value	Duty		Landed cost	Value of credit
			Percent	Cost		
$4,200 light truck	$100	$4,200	25.0	$1,050	$5,150	$100
	300	4,200	25.0	1,050	4,950	300
	600	4,200	25.0	1,050	4,650	600

COMPARISON OF DUTY OWED

	Present law	Parts purchase incentive plan
Landed value of car	$5,300.00	$5,300.00
2.8 percent duty when car has no U.S. parts	149.00	149.00
Duty charged if $100 in U.S. parts were purchased	146.20	49.00
Duty saved by manufacturer	2.80	100.00

Under the plan, a vehicle manufacturer in a foreign country would purchase U.S. parts and asscesories, and have them shipped to one of its foreign plants. The Secretary of Commerce would devise the means to monitor the purchase orders and exports. The manufacturer then exports cars and/or light trucks to the U.S. When they land, the duty rates are applied, 2.8% for cars and 25% for light trucks.

In another major improvement to current law, the Plan would base the auto maker's duty credits on the total amount of products purchased, with no stricture that the parts reenter the U.S. Ideally, the car makers would install the products or stock them as replacements for use anywhere in the world—opening the highly lu-

crative global aftermarket. In fact, even if none of the parts and accessories reenter the U.S., the credit would not be jeopardized.

1982 MAXIMUM PARTS PURCHASE INCENTIVE PLAN CREDITS

Import type	Units	Average maximum credit	Total maximum credit
Japanese cars	1,801,185	$149	$268,376,565
Japanese light trucks	354,587	1,050	372,316,350
All other cars	422,727	317	134,004,459
All other light trucks	1,51,5	3,825	5,794,875
Total maximum credit (all sources)			780,492,249

Of all the advantages that recommend this Plan, none is greater than the volume of sales and jobs it would generate for our shippers. Manufacturers of cars and light trucks in foreign countries could land their vehicles in the U.S. duty free, by using an average of $149 in automotive products per $5300 car and $1050 in products per $4200 light truck. They would save $781 million in duty, and that translates into $781 million in U.S. automotive product exports.

Additional sales of $781 million would more than pay for the Plan through revenue feedback from higher corporate and personal tax receipts and transfer payment savings.

Commerce Department calculations cite a cost to the Treasury of $1 billion in lost revenues and transfer payments for every 30,000 unemployed workers. Secretary Baldrige has also cited statistics that every $1 billion in manufactured exports yield 33,000 manufacturing jobs. Hence, our Plan could have generated 26,000 jobs in original equipment supply alone. The benefit to the Treasury from those 26,000 workers would total $867 million—more than enough to offset the cost of the program.

Let's also look at the income 26,000 jobs can add to the economy. In 1981, a U.S. production worker earned an average of $10.97 an hour in wages and fringe benefits. Twenty-six thousand workers earning $438 a week would add more than $592 million in earnings. The Transportation System Center estimates that a dollar of lost purchasing power leads to a two-dollar decline in local income. Use of our program to stimulate $781 million in exports could reverse that bleak trend for 26,000 workers and their communities—adding nearly $1.2 billion to local income. Twenty-six thousand workes who would otherwise curb their purchases and draw down their savings, could once more be consumers and savers.

In describing the benefits to the original equipment suppliers, we have only scratched the surface of new sales and jobs possible under the Plan. Recognition as original equipment suppliers would set off a chain reaction of growth in aftermarket sales and jobs. The Plan is the thin edge we need to break the stranglehold that Japanese manufacturers have on their dealer organizations in the U.S. and overseas markets. This bolstering of our competitive position in the global aftermarket is a feature missing from the local content proposal in H.R. 1234.

While we would prefer that every trading nation adhere to free trade doctrines we recognize that the real world of international trade does not represent the perfect order. Given that, our Plan offers greater economic advantages than does H.R. 1234. Under the APAA/APEC Plan, the free market would be left to decide which U.S. made components the Japanese and others would purchase. Hot competitive bidding would put a premium on efficiency and reliability of products. Foreign vehicle manufacturers wishing to draw down the duty while assuring a quality product would purchase only the best items the U.S. had to offer, and at the best prices.

Our domestic manufacturers stand to gain a great deal as well under the Plan. New sales revenues would assure suppliers the capital infusion they desperately need to give the U.S. auto makers the technological and competitive edge. The economics of scale gained through original equipment exports and high volume aftermarket production would yield better pricing structures for original equipment and replacements delivered to American car companies.

In addition to cost advantages, a vibrant, efficient supplier industry would guarantee auto makers significant delivery advantages, especially by helping companies move to "just in time" delivery schedules. Harbour and Associates determined in a 1982 study that "just in time" production accounted for $550 of the $2,200 cost ad-

vantage held by Japan in sub-compact car production. A stronger supplier industry could provide similar savings to domestic car makers.

We project that domestic auto makers would gain additional advantages through strengthening of the "secondary" supply network. The automotive industry is the largest customer for American producers of steel, aluminum, rubber, copper, glass, and so on. Hard hit by the industry's depression, the Plan would clearly have a salutary effect on these vital elements of the nation's industrial base. As automotive product manufacturers place greater orders with the secondary tier, the resulting economies of scale will again favor car makers seeking reliable, competitively priced raw materials.

All of these benefits would contribute to American production of state of the art, competitively priced vehicles—leading to greater consumer satisfaction and increased demand for domestic cars.

And, whether American consumers choose to buy a domestic or import car, our Plan will help keep down the costs of replacement parts.

CONCLUSION

In conclusion, we first would like to commend the Committee for interest in the myriad of problems which we have presented. While H.R. 1234 would essay to alleviate the unemployment crisis and to boost sales of American parts and accessories, we believe that the APAA/APEC Parts Purchase Incentive Plan is a far more productive, long range method to achieve both ends. Not only does it surpass H.R. 1234 in efficiency and employment prospects, but it is a balanced approach—endorsed by most major aftermarket associations—recognizing the need to protect U.S. equity and employment interests in this vital transportation industry by restoration of full capacity.

We believe the APAA/APEC Plan is an equitable solution. The equity comes from assuring the U.S. an equal footing in competing with Japanese firms that were fashioned under what Secretary Baldridge has described as the practice of (1) protecting their industry from infancy through a strong growth period, (2) making it strong with subsidies, and (3) then turning it loose on the world and calling it free trade.

We are pleased by the Committee's desire to review alternatives to H.R. 1234. Mr. Chairman, we urge that the Committee consider our industry-backed Plan as a viable and responsible alternative that would give us the leverage we need to open others' markets while keeping American markets open. It would succeed, where H.R. 1234 would fail, in leading to a resurgence of our manufacturing power and the restoration of jobs and plant utilization. We appreciate this opportunity to present our views and would be happy to answer any inquiries you may have.

APPENDIX A.—*Size of the automotive aftermarket in 1979*

[In billions of 1979 retail dollars]

Retail sales dollars: [1]	
Replacement parts:	
Batteries	$2.59
Brakes:	
Drums and rotors	.19
Friction materials	.87
Brake hardware	.07
Hydraulic parts	.47
Chassis:	
Exhaust system	1.70
Shocks	.77
Steering and suspension	.51
Drive train:	
Axles	.64
Transmissions	.99
Joints	.37
Clutch	1.08
Electrical:	
Wire and cable	.64
Parts	2.84
Filters:	
Air	.59
Oil	1.08
Other	.34
Spark plugs	.97

Replacement glass	.71
Other replacement parts [2]	19.96
Chemicals:	
Functional fluids	1.03
Maintenance chemicals	.63
Appearance products	.50
Tires	11.60
Motor oil	2.75
Total	53.89
Number of firms (establishments):	
Vehicle parts and manufacturing: [3]	
Motor vehicle parts and accessories	2,610
Truck trailers	351
Automotive stampings	579
Total	3,540
Wholesaling:	
Automotive parts wholesaling [4]	28,750
Motor vehicles, tires and tubes [5]	10,164
Total	38,914
Representatives: Total representatives [6]	3,000
Retail outlets: [7]	
Automotive related:	
Service stations	150,100
Tire stores	14,800
Other auto supply	28,600
Other automotive	27,100
Auto specialty repair	12,800
Other auto repair	97,900
Other automotive outlets:	
Discount stores	6,900
Department stores	2,700
Grocery stores	83,600
Drug stores	13,400
Variety stores	5,900
Hardware stores	17,800
Other outlets	28,500
Total retail outlets	471,100
Employment: [8]	
Vehicle and parts manufacturing	1,645,000
Vehicle sales and maintenance:	
Wholesaling	423,175
Retailing	1,710,832
Selected services	483,191
Highway construction maintenance	803,699
Related industry (petroleum)	281,625
Local transportation and trucking	9,381,777
Total employment	14,729,299

[1] Automotive Market Research Council.
[2] Includes engines and engine accessories, miscellaneous crash parts, lamps, radios, accessories and air conditioning.
[3] Motor Vehicle Manufacturers Association.
[4] Automotive Service Industry Association.
[5] U.S. Bureau of the Census and The American Trucking Association.
[6] Automotive Chain Store Magazine.
[7] Automotive Parts and Accessories Association.
[8] U.S. Bureau of the Census.

APPENDIX B

1982 DEPARTMENT OF COMMERCE SURVEY

U.S. AUTO PARTS MISSION PARTICIPANTS

Introduction

This report summarizes the results of a third and final survey of U.S. companies that participated in the 1980 Japanese Automobile Components Purchasing Promotion Mission to the U.S.A. The final survey consisted of 40 phone interviews by two senior analysts with business backgrounds. The analysts asked specific questions related to the mission follow-up activity, and encouraged candid comments by the interviewees on their impressions of the mission and doing business with the Japanese.

Results

The majority of the U.S. participants reported a lack of Japanese business resulting from the mission. The participants were not optimistic about the possibility of future contracts for original equipment for automobiles built in Japan. There was some optimism by a few U.S. manufacturers for supplying parts to Japanese firms with U.S. production facilities. These manufacturers planned to pursue this domestic business. Sixty-three percent of the participants interviewed no longer carry on follow-up activities with Japanese companies for business in Japan. However, these companies indicated they would like to do business with the Japanese and would not turn down inquiries received from Japanese companies.

Two firms contracting with a Japanese auto manufacturer said they could not relate this business directly to the mission.

Conclusions

Survey results suggest there is less activity taking place now than in 1981, and there is pessimism about future sales by U.S. manufacturers. There is little evidence to suggest the $300 million sales forecast of 1980 will ever be reached.

The attitude of participants in 1982 was unchanged from attitudes expressed in December 1980. Comments varied from mild pessimism to cautious optimism. It would appear that neither the Japanese nor the U.S. firms are pursuing potential business relationships with much enthusiasm or expectation of success.

Recommendations

The U.S. Government should assist our manufacturers in supplying U.S. domestically produced Japanese automobiles and trucks.

JAPANESE AUTO PARTS BUYING MISSION

U.S. firms surveyed felt the following issues should be brought to the attention of the U.S.-Japan Trade Facilitation Committee:

The Japanese Government and automobile manufacturers are not convinced that doing business with U.S. firms is in their best interest.

The Japanese can arrange to under-price U.S. firms when they request a package of products.

The Japanese are trying to promote their suppliers to set up in the United States for aftermarket.

The Japanese are likely to import only small consumer disposables, e.g. toothpaste, coca-cola.

The Japanese must eliminate the "closed, good-old-boy" system for suppliers.

The value of yen compared to dollar must be considered and addressed when discussions with the Japanese are held.

ATTACHMENT I

SECOND COMMERCE DEPARTMENT SURVEY OF U.S. AUTO PARTS MISSION PARTICIPANTS

The second survey indicates that U.S. participants are neither satisfied with the progress made to date nor optimistic about the possibility of future developments. Even though 86 percent of the U.S. respondents are presently in contact with the Japanese firms represented on the mission, 49 percent believe these contacts have not been productive, 39 percent believe them to be somewhat productive and only 12 percent feel they have been very productive.

Survey responses reveal that since the first survey 73 price quotations have been requested and 42 post-mission negotiations are currently taking place. However,

only 5 new contracts have been signed, 11 contracts are currently under negotiation, and 24 sample orders have been placed—10 of which are for the same product. The mission to date has generated approximately $5.5 million according to survey respondents. Included in this figure is the $4 million in sales reported in the first survey.

RESULTS

This survey yielded responses from 63 of the 73 representatives who participated in the September 1980 Mission. The 63 respondents represent 41 different U.S. companies. The results from their completed questionnaires are summarized in the table below.

MISSION RESULTS

	Export		Aftermarket		Total items
	Firms	Items	Firms	Items	
Contracts signed	3	4	1	1	5
Contracts currently under negotiation	7	10	1	1	11
Sample order placed	8	24			24
Price quotations requested	22	73			73
Post-mission negotiations taking place	11	36	2	6	42

Follow-up survey results reveal that fewer U.S. companies are presently negotiating with the Japanese firms than were negotiating at the time of the first survey. Only a handful of new price quotations have been requested and prototype orders placed since the first survey. These results suggest that much less activity is taking place now than was occuring six months ago. Results are especially disappointing for the U.S. aftermarket on Japanese cars. Although 40 percent of the mission participants are presently involved in this market, very little activity is taking place. Only one contract has been signed, one is currently under negotiation and 6 post-mission negotiations are taking place.

QUALITATIVE FINDINGS

There is an overall feeling from the U.S. participants that the Japanese are global-minded only as far as selling their products. However, they are divided on the use of government assistance to stimulate U.S. auto parts sales. Some firms believe that the political tension is hindering the signing of contracts, while others feel that the Japanese firms would not have any incentive to show even a limited amount of interest without some government participation. In spite of all the pessimistic feeling portrayed by the U.S. respondents, the majority continue to have contact with the Japanese firms represented on the mission.

One possible cause for optimism is that 14 U.S. companies anticipate signing future contracts as a result of current discussions with Japanese firms on 16 product items within the next 2 years. Of these firms, the average number of months from the completion of the mission to their estimate of the contract signing is 18 months. The product lines on which these contracts may be signed are broad in scope.

Many of the surveyed firms feel that the Japanese manufacturing companies are not serious about buying U.S. parts and that they show an interest only because of pressure exerted from both the Japanese and U.S. Governments. According to the U.S. parts manufacturers, the Japanese automotive firms appear to be satisfied with their own domestic suppliers. Some of the U.S. respondents state that the Japanese firms are "protecting" the suppliers with whom they have close domestic ties. In some cases these ties are in the form of equity or complete ownership arrangements. U.S. firms who are experienced exporters mention that this is a particular problem because they do not only have to penetrate an export market, but also a much stiffer one, the Japanese domestic market. A general impression of the U.S. mission participants is that Japanese companies are seeking to disqualify firms who do not meet their needs rather than find firms that do.

Japanese quality control standards continue to present a problem to about 38 percent of the responding U.S. firms. Most of these firms believe that the Japanese companies are very demanding since they will not allow products to deviate from

exact specifications even if equal or superior to the requested part. Additionally, some U.S. suppliers believe that they are given insufficient lead time to make quality changes asked for the by the Japanese.

PROBLEMS ENCOUNTERED IN THE EXPORT MARKET

The most crucial problem encountered by more than 85 percent of the U.S. mission participants continues to be their inability to quote acceptable prices to Japanese companies. Reasons for this problem include import tariffs, the continued weakening of the yen vis a vis the strengthening of the dollar, and most importantly, the cost of trnsportation. According to the U.S. participants, it is almost impossible for them to compete with the domestic Japanese parts suppliers when shipping costs are added to their domestic manufacturing costs. This is particularly true in the automobile industry where many component parts are very heavy (e.g. transmissions) or very delicate and thus require special shipping arrangements (e.g. windows and other glass parts).

Most price quotations submitted to the Japanese companies have been rejected. A few U.S. firms have suggested that a solution to this problem would be to install parts in the Japanese cars at the U.S. port of entry. However, other firms feel that the problem will only be solved by the manufacture or at least assembly of Japanese cars in the United States.

PROBLEMS ENCOUNTERED IN THE AFTERMARKET

Of the 20 U.S. respondents selling to the U.S. aftermarket for Japanese automobiles, 8 have encountered problems. The problems cited can be combined into one primary concern. U.S. respondents voiced concern about the special agreements which exist between the Japanese auto manufacturers, their U.S. auto parts distributors and the Japanese U.S. car dealers to encourage the purchase of Japanese-made parts in the U.S. This matter is currently being investigated by the Federal Trade Commission (FTC). In the opinion of these respondents, the Japanese prefer to use their own channels of U.S. distribution because they appear to mistrust American sales partnerships.

ATTACHMENT II

INITIAL COMMERCE DEPARTMENT SURVEY OF U.S. AUTO PARTS MISSION PARTICIPANTS

The results from the survey conducted by the Department of Commerce suggest that the majority of the U.S. participants are satisfied with the initial business contacts resulting from the mission. Though the U.S. firms caution that it is too early to judge whether significant sales will result, the majority of the firms are optimistic about the potential results. A minority are, however, much less optimistic, believing that the Japanese firms are not pursuing potential business relationships with much enthusiasm.

Initial discussions between U.S. and Japanese companies are under way on a wide range of product lines, but few contracts have been signed so far. Participants who responded to the survey reported $4 million in sales. This small amount is not surprising at this early date. Nevertheless, these results indicate that considerable effort lies ahead if U.S. auto parts to Japan are to increase the roughly $200 million in 1981 that had been forecast by the Japanese mission participants in September 1980. (Some of this increase will be exports of U.S. companies not participating in the mission.)

Since the mission was not the first business contact with Japanese companies for most of the U.S. participants, these results can not be solely attributed to the mission. The companies reporting sales all indicate that prior negotiations were under way. Nevertheless, the comments of the participants suggest that the mission was beneficial to the furthering of their negotiations.

RESULTS

The initial survey yielded responses from 64 of the 73 representatives who participated in the mission. These 73 participants represent 54 different companies. The results from their completed questionnaires are summarized in the following data table.

MISSION RESULTS TO DATE

	Number	Firms	Participants
(1) Contracts signed	5	5	5
(2) Dollar sales (in millions)	$4	.....	.....
(3) Contracts currently under negotiation	28	8	11
(4) Sample orders placed	23	10	12
(5) Price quotation requested	91	28	40
(6) Post-mission negotiations	93	33	44

NOTE: The above data represent only those results of participants who responded. If additional participants' responses are received, these results will be reflected in subsequent reports.

Based on the reported results, the post-mission period appears to be off to a good start. As the above table shows, activity is occurring in all stages of the business process, from initial U.S. contact with Japanese firms to the actual signing of contracts. Of the 54 reporting companies, only 9 reported no business dealings. The bulk of the reported activity is occurring in the preliminary business stages, e.g., plans for post-mission negotiations and requests for price quotations. This is to be expected at this early date since it generally takes considerable time for an automobile component purchasing contract to be finalized.

The level of activity in the preliminary stages is encouraging at this time, however, we would expect subsequent surveys to show much greater movement toward completed contracts and actual sales.

QUALITATIVE FINDINGS

The U.S. firms generally saw the mission as a good opportunity to continue the dialogue begun prior to the mission as well as to initiate new contacts. The tables indicate that most U.S. participants have continued these discussions with their Japanese counterparts beyond the conclusion of the mission. However, almost unanimously the U.S. participants warn that it is still too early to tell whether these discussions will prove to be productive in the long run. A typical comment from the participants is ". . . further negotiations are being conducted but nothing conclusive has occurred to date."

A minority of the participants (approximately 20 percent have a more pessimistic attitude toward the accomplishments of the mission. In their opinion, the Japanese firms have not exhibited genuine interest in doing business with them and are only going through the motions of negotiating with them because of pressure exerted by both the Japanese and U.S. Governments. Typical comments: "May be lack of serious inquiries in many cases" and "We hve the distinct impression that the Japanese companies present were merely satisfying U.S.A. pressure on trade relations."

The U.S. participants are, for the most part, satisfied with the timeliness and sufficiency of the responses provided by the Japanese firms to their questions. There were only a few complaints of receiving incomplete information from Japanese firms. In turn, the U.S. firms reported little difficulty in responding to the inquiries made by the Japanese firms. Additionally, almost all of the U.S. participants who have established contact with the Japanese firms are planning follow-up activities over the next six months. These companies report that they plan to continue contacts both in the United States and Japan with the Japanese automobile manufacturers. Future trips to Japan are also planned by many companies.

Comments made by the U.S. participants reflect a realization that final sales will not come easily. The problem of greatest concern to the U.S. participants is their ability to quote prices acceptable to the Japanese companies. A factor mentioned frequently by the respondents as contributing to the problem is shipping and associated costs. Of the fifteen U.S. participants who had received a response to their price quotation, the majority were told their price was too high. Some U.S. participants indicated they are requoting or are investigating the reasons why their quotes were considered too high.

The second area of concern is quality control standards required by the Japanese manufacturers. In the opinion of some U.S. participants these standards are not reasonable and prohibit U.S. parts from successfully passing the Japanese product performance tests. Additionally, some U.S. participants believe that they are given insufficient lead time to make the product modification requested by the Japanese firms.

METHODOLOGY

Immediately following the conclusion of the buying mission, International Trade Administration (ITA) evaluation specialists began to design a questionnaire which would measure both the U.S. participants' impressions of the mission and the amount of business generated by the mission. After discussions with the Japanese Government to ensure some comparability in survey methods and forms the questionnaire was finalized and sent to the 73 representatives of U.S. firms who partici pated in the mission.

These participants, who represented primarily large companies involved in the manufacture of components for the automobile industry, were not all originally scheduled to meet with the trade mission. Of the 73 representatives, only 43 actually participated in the mission in response to ITA recruitment efforts, while the remaining 30 representatives were contacted directly by the Japanese automobile firms and met with the Japanese representatives during the second week of the mission. The 73 participants represent a total of 54 different companies.

This report was based on the 59 written responses and the five additional telephone responses received to date. The responses received represent 88 percent of all participants and 85 percent of all the companies participating in the mission. Subsequent reports will include any additional responses which are received.

APPENDIX C

TESTIMONY OF THE AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION PRESENTED BY JULIAN MORRIS, PRESIDENT, BEFORE THE SENATE SELECT COMMITTEE ON SMALL BUSINESS CONCERNING NON-TARIFF TRADE BARRIERS TO SELLING IN THE JAPANESE MARKET, JULY 25, 1980

I am Julian Morris, President of the Automotive Parts and Accessories Association. APAA is a national organization representing nearly 1,500 manufacturers, wholesalers, warehouse distributors and retailers involved in bringing motor vehicle equipment, accessories and vehicle related chemicals to the consumer and professional installation market. The majority of our manufacturer members are engaged in exporting, although few have been successful in cracking the Japanese market. I am here to share some of their frustrating experience with you.

"They shall not pass."

In this case, we are not talking about an insurmountable mountain peak but the inability of American products to secure landing space in Japanese markets.

Trading companies and distributors have erected well constructed barriers where few imports can penetrate. And, in the opinion of American exporters affiliated with the Automotive Parts and Accessories Association, they are being aided and abetted by the Japanese government.

In fact, our exporters are firm in their belief that no matter how low Japanese tariffs become, there will be no appreciable flow of American products in the discernible future to Tokyo and other ports of entry.

According to APAA manufacturers we have consulted, Japanese distributors have utilized a wide variety of strategies to keep American products off limits. Accuracy testing, product quality standards and debilitating delaying tactics are among the exercises that make it all but impossible for Americans to sell in this market.

We have collected a formidable body of evidence demonstrating that the Japanese are really playing hard ball. Let us begin with the experiences of an American manufacturer of anti-freeze testing equipment that is going nowhere with our so-called Japanese trading partner. Sales of this high quality equipment is in the millions of units in the U.S. market—and the product has passed government and consumer tests with flying colors.

It is significant that the company became interested in the Japanese market as a result of numerous inquiries from Japanese retailers. The product is able to test the ability of anti-freeze solutions to perform properly in weather as low as 10 degrees below zero. The company researched the market in 1974 and became convinced that its testers were of a higher quality, better designed and more durable than similar products selling successfully in Japan.

Company representatives contacted small and medium sized Japanese distributors to see if they would handle the product. One distributor tested 100 units, an unusually large number since one or two suffice. These units had an accuracy variance of 8½ to 11 degrees which is highly acceptable performance for other markets. But the product was rejected by the distributor because it couldn't attain 100 percent accuracy in all cases.

The company then tried another distributor. Its proposal made the arduous route through a total of 26 executives. Yet after many frustrating months the proposal was rejected. One of the reasons given was that it would have to be priced too high for the Japanese market. This didn't jell with pricing information the company received from Japanese sources.

In 1978, the company tried again. This time, the pricing climate seemed conducive since the yen was soaring and the dollar plummeting—but the results were the same as before. No sale. No explanation.

Now, I would like to read you excerpts from a letter sent to us from another APAA member firm.

"Our company is the world's largest manufacturer of tire valves and builds its valves to an international standard and is approved by most all automobile and tire companies outside of Japan.

"In early 1973, we submitted valves meeting international standards for their approval. From that time on it has been one request after another for drawings, changes in design, additional samples, etc. Often we seemed to approach their specifications only to have them changed.

"We have made numerous sales calls and engineering calls to obtain their approval of the product. In doing so we found that the Japanese industry standards are different from the worldwide standards even though their representatives attend the International Standard Organization meetings on tire valves, at which international standards have been established.

"The product in question in this case was a tubeless tire valve to be used on vehicles exported to the United States. In order to conform to Janapese specifications our company would have violated the ozone standards and other specifications of the U.S. regulatory agencies, the Society of Automotive Engineers, the California Department of Transportation and the general requirements of the tire companies and the car companies in the United States."

Let me quote this executive again—"In January, 1979, our Works Manager made a second visit to Japan to finally clear up any engineering details that were in dispute. At that time a new specification was introduced—which was to mark the valve in such a manner that the lot in which that valve came from could be identified in case of a recall requirement. It had taken 8 years for our company to 'come close' to meeting their specifications."

We have included as a supplement to this testimony, the chronology of events over these last eight frustrating years. This is his conclusion: "It is the technical people who have put the difficulties in front of us and I consider that their many requirements to meet Japanese standards are the obstacles, and not necessarily the tariff barriers."

I also have testimony from a battery testing equipment manufacturer who has experienced the same vexing ritual of testing, standards, specifications and interminable delays.

He tells us: "We sell less than $50,000 per year in Japan and based on what we are doing in other countries like England, Germany, France and even places like Hong Kong and Taiwan we should probably be shipping to Japan at least five or six hundred thousand dollars worth of our products at factory selling price.

"Our biggest problem is that the Japanese will not accept UL approval or independent U.S. laboratory approval even when we comply with Japanese specifications. Products must be tested in Japan.

"I'd like to cite some examples. We have a product rejected because the Japanese say that the packaging is objectionable. We ask for an explanation. They say it is hard to explain—too many language barriers. We return to the drawing board and change what he thinks may be objectionable. After many months we receive word the changes do not relate to the objectionable elements. We discuss the situation further but never succeed in finding what it is they are objecting to.

"The Japanese sometimes refuse a product because they claim the price is too high. However, the manufacturer knows he can bring the price in under or at the lower end of the products already on the market. When apprised of this, the Japanese rejoinder is that because it is an import, people will think it ought to be priced higher for prestige purposes, hence the Catch 22 argument that the price will be too high.

"Alternatively, the Japanese will placate the seller by accepting the product and then pricing it out of the market.

"One of our biggest problems is that the Japanese will not accept UL approval even when we comply with Japanese specifications. Products must be tested in Japan.

"This can take years. You send them a unit for testing. Then months go by. After many letters, telexes and phone calls, you are finally told the product failed the test. You request information on what caused the failure. They are unable to give you an explanation.

"If you ask what voltage was used in the test—the reply is 'standard' voltage. But they are unable to define 'standard' voltage and promise to mail you the information at a later date.

"In the meantime, they request two additional battery testers and explain the original testers were destroyed while testing.

"This time you stipulate that the new samples be tested one at a time so if one is destroyed the second can still be tested to the point prior to the destruction of the first tester. You also request that it be returned so that you can have a better idea of what the failure mode is. However, the Japanese either destroy both samples or claim they lost the second tester. This goes on and on and on.

"You can waste years trying to crack the Japanese market. It takes thousands of dollars in telephone calls and telexes. If you go there to meet with them the cost of living kills you. Typically, it cost $200 a day for hotel accommodations, $100 for food and $2,000 for air fare per person. Days can run into weeks and months. Usually the entire trip is wasted and you find yourself back home negotiating by phone and telex."

This is his conclusion: "The only way our industry, or any industry in the United States is going to successfully penetrate the Japanese market and help defray the huge imbalance of payments we have with Japan, is for us to get the cooperation of the official and unofficial Japanese government and entities that we have to deal with in exporting. Until they agree that they are going to cooperate and really 'play fair' with us in this matter, we are going nowhere and will never meet any large degree of success in this area."

Amen.

[Attachment]

BRIDGESTONE TIRE VALVE APPROVAL PROJECT CHRONOLOGICAL ENGINEERING EVENTS

October 25, 1972—H. R. Prasad meets with Bridgestone in their Tokyo office. B. S. informs Schrader of their approval requirements.

April 1973—Schrader valves submitted to B.S. for approval.

September 8, 1973—Schrader informed by B.S. that valves must meet J.I.S.

December 1973—Schrader decision to make drawing and manufacture prototypes to J.I.S.

Janurary 11, 1974—Schrader TR 218A; (20) TR 413's (U.S.A.) submitted to B.S.

February 8, 1974—Schrader submitted 50 TR 413's to B.S.

April 18, 1974—Schrader told by B.S. that approval may come by end of 1974.

May 9, 1974—Submittal of TR 78 and TR 89 "equivalents" to B.S. by Schrader.

June 14, 1974—Submitted the following to B.S.: (20) TR 218A; LN-10; (20 TR Ch3).

August 29, 1974—Submitted (20) TR 13 to B.S.

October 16, 1974—Letter from Ikegami: Results rather good.

November 14, 1974—B.S. approval of second sample submission (application approval) B.S. now waiting for additional (50) pieces each of TR 413, TR 78A and TR-89 for production tests.

February 6, 1975—Forwarded (55) TR 89 equivalent to B.S.; also (44) TR 13's.

February 11, 1975—Forwarded (49) TR 78 A equivalent to B.S.

August 8, 1975—Informed by Ikegami that B.S. is setting up new "purchase rules" for Schrader (non-B.S. standard) valves. Approval procedure to start all over again.

August 1975—Kilmarx visit to Japan.

March 1977—Submittal of 6069 caps in black to B.S.

June 27, 1977—B.S. critical on Schrader's dimensioning of product drawings.

September 14, 1977—Resubmitted re-dimensioned drawings to B.S. plus 6069 cap test data.

December 16, 1977—B.S. approval on Schrader TTV for domestic A.M. and overseas factories with "minor" qualifications.

January 13, 1978—B.S. presents to Schrader "B.S. vendors basic contract".

February 24, 1978—Schrader/U.S.A. submits to Schrader/Japan; Schrader/Bridgestone Agreement.

April 3, 1978—Schrader trace back system sent to B.S.

June 23, 1978—Schrader trace back system rejected by B.S.

July 18, 1979—Schrader 6069 caps disapproved by B.S.

January 26, 1979—Kilmarx trip to Japan.

July 3, 1979—Irlinger and Ikegami arranged for drawing corrections requested by B.S.

July 17, 1978—Dickson meeting review: B.S. specifications and planned course of action (new molds, etc) to meet Bridgestone specs (French cap).

July 19, 1979—Informed Ikegami changes are no problem.

July 20, 1979—From Ikegami: B.S. changed dimensions are acceptable.

July 20, 1979—Ordered drawings and samples of French cap.

August 1, 1979—Requested lab material spec, from France for Ike.

August 22, 1979—Status report and delivery schedule mailed to Ike.

September 13, 1979—AQL (BS) meeting held W/QC—program set up and Ike notified.

September 14, 1979—Sample mold insert ordered.

September 14, 1979—Test program and additional BS info finalized.

September 27, 1979—Sample compound and test data sent to Ike.

October 1979—Samples of several compounds produced and tested.

October 5, 1979—Requested B.S. sampling procedures.

October 28, 1979—Test results analyzed.

November 29, 1979—Ikegami notified testing completed.

December 17, 1979—Test comparing B.S. and Pacific production to Schrader in process. Samples of TR 413 submitted to B.S. Later 2001-72 compound tests not as good as original (BS samples).

February 29, 1980—Pacific versus Schrader quality and performance report issued.

March 20, 1980—BS 413 valves estimated by Dickson ($156.72/M + 9,500 tools).

June 3, 1980—Report from BS: Schrader/USA Brass quality acceptable; Schrader compound 2001-72 acceptable for first order only; 1. Order of 300,000 may be forthcoming.

APPENDIX D

THE AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION ANALYSIS OF THE REPORT ON SERVICE PARTS FOR JAPANESE VEHICLES IN USA BY THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

CHAPTER I. JAPANESE VEHICLE REPLACEMENT PARTS MARKET IN THE UNITED STATES

Section 1. Japanese Vehicle Population in the United States—present and future

A. New Vehicle Registrations (Exhibit 1-1)

Page 3, Line 2 Cites Exhibit 1-1, sources: *Automotive News* and JAMA. Show growth in Japan's market share of new cars from 16.8 percent of new cars in 1979 to 21.3 percent in 1980. As JAMA notes, this 21.3 percent share of the new car market sets a record level.

Comment: The report should not include VW and other imports. They do not pertain to the report's stated intention "to conduct research to define the actual state of the parts aftermarket for Japanese-made car in the U.S." (Page 2, Line 9-10)

Line 5-8 Notes that the 20 percent decline in domestic sales "can be considered to account for the overall rise in the share of Japanese vehicles."

Comment: No explanation or evidence is given to substantiate such a cause-effect relationship.

Furthermore, although mentioning the relationship of the sharp Japanese increase to the precipitous U.S. decline, no mention is made that VW declined 27 percent and "other imports" were down 8 percent.

No breakdown is made for "other imports" totaling 390,795 units.

B. Vehicle Population (U.I.O.—units in operation) (Exhibit 1-2, 1-3)

Line 10 Cites Exhibit 1-2. The pie chart shows three Japanese auto makers holding a joint total share of the import vehicle population of 40 percent. A significant 37.3 percent share is held by unnamed "other" imports. VW holds a 22.7 percent share.

Comment: Exhibit 1-2 proves very unsatisfactory for purposes of the Japanese vehicle discussion.

VW's 22.7 percent share appears in order to make the three Japanese auto maker's share look smaller.

Lines 11-12 Cites estimates that total U.S. car park in 1980 stood at 142 million units, including 11 million Japanese units (8.1 percent share).

Lines 13-14 Notes "projecting 5 years ahead," total car park should grow to 163 million units (a 21 million unit increase), with 18 million Japanese units (10.9 percent share).

Comment: No specific source is given for who is "projecting" the 1985 Japanese share or for the 1980 estimates cited.

Lines 16-17 The report laments that "when compared to the registration of new vehicles, the share of Japanese vehicles (10.9 percent) in the total U.S. vehicle population is still at a low level."

Comment: These figures in no way portray the depth of the Japanese market penetration. If indeed, one accepts a growth of 21 million units by 1985, and 7 million units (one-third) of that growth is attributed to Japanese vehicles, one begins to sense the scope of market trends. These figures illustrate visions of much higher market shares than the record 21.3 percent share held in 1980.

Exhibit 1-3, offered to support the above, has no specific source attributed to it. It shows the share of other imports slipping between 1980 and 1985, from 4.7 million units in operation to 2.1 million units, a decline of 55.3 percent, while Japan will increase its units from 11.4 million to 17.8 million.

Comment: This is interesting in light of the previous use of VW and "other" imports to make Japanese shares of total imports look smaller.

Exhibit 1-3 also dramatically understates the Japanese share of units in operation in 1985.

In accompanying charts, trucks are counted twice to make the grand total of vehicles in operation larger. For 1985, the chart breaks down Japanese vehicles into 12 million cars and 5.8 million trucks. The figure for imports actually counts the 5.8 million trucks in the total for cars. Thus, when U.S. domestic cars of 100.8 million and the 19.9 million imports are added, total cars is 120.7 million. Then, when counting trucks, the same 5.8 million Japanese trucks are added to 36.2 million U.S. domestic trucks, for a total of 42 million trucks. Therefore, the grand total of cars and trucks is overstated by 5.8 million units, and should actually be 156.9 million. Using this smaller total, the share of Japanese vehicles in 1985 rises from the stated 10.9 percent to 11.3 percent, a very significant increase. The figures for 1980 are also overstated, and the actual Japanese vehicle share should be 8.24 percent instead of 8.1 percent.

Lines 18-19 Report a "review of the top four imports (VW, Toyota, Datsun, and Honda) shows they account for 63 percent of total U.S. imports."

Comment: The only pertinent information should be the 40 percent share held by the three top Japanese auto makers, and the breakdown of the 37.3 percent "other" to show Japanese vehicles.

C. Change in Vehicle Age (Exhibit 1-4, 1-5)

Lines 21-22 States "the age of the vehicle population is a key factor in determining the size and structure of the total replacement parts market."

Lines 22-25 Compares the average age level of "VW at 8 years" with the relatively younger U.I.O., of Toyota and Datsun at 5 and the Honda at 3 years."

Comment: Report once again clouds the issue by including VW in the analysis.

Lines 25-26 The above claims to show "that the replacement parts market for Japanese vehicles has not yet matured."

Comment: No explanation offered as to how this is shown.

Lines 27-28 Contends: "In terms of the age of U.I.O., vehicles over 2 years old are the most influential in creating parts demand."

Comment: If one accepts this, there should already exist strong parts demand due to significant numbers of Japanese vehicles averaging 5.2 years in age.

Lines 28-29 Cites "figures for Japanese U.I.O. in 1980, 75 million units (65.8 percent are over two years old."

Comment: This text and its supporting Exhibit 1-4 leave the most pertinent information unstated. Unmentioned is that 68 percent of Toyotas, 66 percent of Datsuns, and 56 percent of Hondas are over two years old. So many vehicles are well over two years old that their respective average ages are: Toyota (5.2), Datsun (5) and Honda (3).

Exhibit 1-4 breaks down the various makes of imports to show the weighted share each has in the total import park over two years old.

Comment: The text nowhere notes that of the total import car park over two years old, 29.8 percent are Toyotas and Datsuns. This means that 68 percent of Toyotas and 66 percent of Datsuns account for nearly 30 percent of the entire import car park over two years old. Indeed, there is already significant maturity.

Exhibit 1-4 cites "others", but gives no breakdown. In this case, 38.3 percent are labeled "others." Of the total 5,989,000 "others", nearly 75 percent fall in the over

two years old category, and the average age for these vehicles is 6.2 years. Left unstated is how many of these are older Japanese units.

Lines 29-32 Envisions in 1985 "13.7 million units (77 percent) of the projected Japanese U.I.O. will be two years old or older. This is an 83 percent increase."

Comment: This glowing picture of the future is held out as if there were no significant maturity already. No mention is made of how the 1985 projections will change things materially.

As for the "83 percent increase", it is a rather dubious use of figures. The rate of change which is of concern is the 11.2 percent in percentage of units 2 years or older. This real percentage change is 17 percent, far different than an 83 percent increase. And, when looking at it from the perspective of absolute shares in a market, it is an absolute percentage change of 11.2 percent, from 65.8 percent to 77 percent.

Never attributes information to a specific source but lists JAMA and their contractor, Management Perspective as two of the three sources.

Section 2. Replacement Parts Market for Japanese Vehicles in the U.S.—present and future

A. Replacement Parts Market Size in the U.S. (Exhibit 1-6)

1. Present—1980

Page 4, Line 1 Bases discussion on Exhibit 1-6. After showing in other exhibits a declining share for other imports, this exhibit shows an increase for the replacement parts market for both imports and Japanese vehicles. The size of the replacement parts market for Japanese vehicles is seen growing from $1.06 b. in 1980 to $1.80 b. in 1985. The total figure for imports is seen climbing from $2.56 b. in 1980 to $3.31 b. in 1985.

The pie charts and accompanying table show a replacement parts market for Japanese vehicles in 1980 of $1.06 b. (3.1 percent of the total market). Of this amount, the dealers' share is $0.53 b. (1.6 percent of the total market). The total Japanese market and dealers' shares are to grow respectively to $1.80 b. (4.3 percent of total market) and $0.72 b. (1.7 percent of total market), in 1985.

Comment: One is to believe that of the $0.74 b. in projected growth, only $0.19 b. of the increase will be attributed to the dealers (growing from $0.53 b. to $0.72 b.). So, while they now have a 50 percent share in 1980, by 1985, their share is expected to decline to 40 percent.

The table shows the "imports" replacement market growing from $2.56 b. in 1980 to $3.31 b. in 1985, a change of $0.75 b. If this is to be believed, then of the total import increase of $0.75 b., Japanese vehicles will account for $0.74 b. of it, or all but $0.01 b. (for other imports). What imports are included here? The figures are very suspect.

Lines 3-4 "It is expected" that the total 1980 market for replacement parts will amount to "$34.6 b. on a retail basis."

Comment: The report fails to note who specifically "expects" this.

The report also fails to credit specific sources for the projections in Exhibit 1-6, even though JAMA and its contractor, Management Perspective are two of three sources cited.

Lines 5-6 "In this total, the replacement parts market for Japanese vehicles is estimated at $1.06 b."

Comment: Again, there is no firm source cited for this estimate; no study cited to show it.

Lines 7-8 "As this constitutes a 3.1 percent share of the total replacement parts market, it can be said that the market for Japanese vehicle replacement parts is still small."

Comment: By whom can this be said? After all, the Japanese are supplying replacement parts for their cars. The issue is how much of the business U.S. firms have, and that can truly be said to be small.

2. Future—1985

Lines 10-11 "The total replacement parts market is projected to expand 20 percent over the next five years to reach a value of $41.5 b. (retail)."

Comment: Again, there is no specific substantiation for these figures. There is no explanation, either, for why in this period of expansion (20 percent) would all other imports gain only $0.01 b. of the total $0.75 b. gain for imports.

Lines 12-13 "The replacement parts market for Japanese vehicles is projected to amount to $1.8 billion in 1985."

Comment: Again, no adequate source is provided for the projection.

Lines 14–16 Claims a projected Japanese "expansion of approximately 70 percent in five years and represents a market share increase of 1.2 percentage points from 1980 to reach 4.3 percent of the total replacement parts market which is still a comparatively small ratio."

Comment: No substantiation is advanced for the projected expansion.

There is no mention of the implications for other imports.

The lament that they will still have "a comparatively small ratio" in no way detracts from the tremendous projected increase in sales.

Lines 17–18 Claims the Japanses dealers' share will be "only 1.7 percent of the total replacement parts market in the U.S.", a decline in its percentage share.

Comment: No study is advanced to prove the projected dealer decline at a time of such large increases.

B. Replacement Parts Market Size and Share by Sales Channel—present and future (Exhibit 1-7, 1-8)

1. Present—1980

Lines 23–26 "Of this total ($1.06 billion, 1980) it is estimated that Japanese dealers have a market share of 50–55 percent (A. T. Kearney).

Comment: While citing JAMA's contractor, Kearney, no study is cited for Kearney's findings. This same deficiency applies to the other figure of "45–50 percent or $530 million of the replacement parts market sold through independent repair shops and other retail distribution outlets outside the car dealer channel."

Lines 27–38 "In general, U.S. domestic car dealers account for 18 percent of the total parts sales for U.S. domestic makers in comparison with the already mentioned 50–55 percent share of Japanese car dealers."

Comment: What is meant by "in general"? Who is the actual source for this information, and what basis? Specific information is needed.

Lines 29–31 The two factors cited for this difference are "the low level of Japanese vehicles in the total U.S. vehicle population and that the age of the Japanese U.I.O. is still relatively young."

Comment: Using the Japanese standards, a vast number of their vehicles in our car park are not young, making for very specious reasoning.

2. Future—1985

Page 5, Lines 2–5 Notes that in the U.S. market, "car dealer share of total parts sales have historically and continually declined" from a 95 percent share held by U.S. car dealers in 1920 to "only 18 percent in 1980.

Comment: If one accepts the figures for the declining car dealer share of total parts sales for domestic makers, one must note that of the 77 percent reported decline from 95 percent in 1920 to 18 percent in 1980, 65 of those percentage points of decline occurred before 1960. Or put another way, 85 percent of the total decline portrayed had occurred by 1960.

The next increment of decline from 30 percent in 1960 to 21 percent in 1972 represents 9 percent of the 77 percent decline, or about 11 percent of the total decline. The increment from 21 percent in 1972 to 18 percent in 1980, or three of the percentage points of decline represents 3.9 percent of the total decline.

Looking only at the last eight years experience, there has been a decline from 21 percent to 18 percent, or about 15. And, from 1980 to 1985, about an 11 percent decline. Indeed, the rate of decline has been slowing significantly since 1960.

Lines 4–5 "This historical trend shows that Japanese car dealers will not be an exception."

Comment: Yet, their own figures show a decline from 50 percent in 1980 to 40 percent in 1985, a 20 percent rate of decline, more than double the 9 percent decline projected for the U.S., from 18 percent to 16 percent. Who really expects this to happen?

Lines 8–9 Repeats the claim that the Japanese dealers' share in the replacement parts market is "expected to decline."

Comment: While there may be a decline, it will be most unlikely to see the projected magnitude.

Lines 10–13 Claims: "And, this declining trend will be further exacerbated by the increased activity and participation of U.S. parts manufacturers and the independent distribution channel in the Japanese replacement parts market as well as increasing inflation and the change in consumer purchase patterns to D.I.Y. as a consequence of the cost consciousness of higher gasoline prices."

Comment: What is meant by this analysis? No evidence is offered to support the claim; none of it proves that U.S. parts makers will gain a larger share.

Lines 14–18 Repeats Management Perspectives Inc.'s premises that the independents' share will grow from 50 percent to 60 percent, while the dealers' share declines from 50 percent to 40 percent.

Comment: These premises are without substantiation.

Lines 18–20 The report draws the conclusion that "the sale of replacement parts outside the Japanese car dealer channel will double in the coming five years to 1985."

Comment: It is hard to accept this 100 percent increase in outside dealer sales, in light of the problems with the projected dealers' share decline. Also, even if the decline figures are accepted, the most important figure to look at is the rate of change for independents, a 20 percent gain between 1980 and 1985, a far cry from what the 100 percent increase portrays.

C. Sales Status of U.S. Independent Channel for Japanese Vehicle Replacement Parts (Exhibit 1–9)

Lines 23–25 Cites survey by *Warehouse Distribution* magazine, reporting 86.3 percent of warehouse distributors surveyed "handle car parts for import vehicles."

Comment: This fails to address the issue of Japanese car parts, clouding the issue by asking "do you stock replacement parts for import vehicles?"

To have any meaning, the figures would have to be broken down to show Japanese parts handled, and the magnitude of the Japanese lines they handle.

Lines 27–31 Cites reports by "94.6 percent" of warehouse distributors surveyed that they procure parts for import cars from U.S. parts manufacturers producing such import car parts. 'This shows that U.S. parts manufacturers are actively participating in the market for import cars."

Comment: It shows nothing from which to draw such conclusions. What is meant by the figure? Is it one line of parts for Japanese cars, or is it only one item for Japanese cars? Does it, perhaps, mean VW, and no Japanese business? What is the magnitude of purchases of actual U.S. made parts for Japanese vehicles? None of this is portrayed.

No one can draw a valid conclusion from the "information" that U.S. parts makers are actively participating in the parts market for foreign imports, much less actively participating in the parts market for Japanese imports.

Exhibit 1–9, from which the 94.6 percent is drawn, also shows 26.2 percent of the respondents saying that they buy replacement parts for import cars from an importer (parts of foreign origin, bearing tradename of foreign manufacturer) or direct from foreign car manufacturers or agents outside U.S., which drew 4 percent response.

Comment: These two non-U.S. sources total to 30.2 percent of the respondents. It is impossible to tell the relative shares of purchases assigned to the two latter groups versus the weighted share of the 94.6 percent responding that they buy from U.S. manufacturers.

Lines 32–35 The report concludes "Further, from the fact that approximately 80 percent of the warehouse distributors reported that they consider import parts business profitable," and "they intend to and will be expanding their lines and coverage of replacement parts for Japanese vehicles in relation to the growth in U.I.O. and increasing vehicle age of Japanese vehicles."

Comment: JAMA draws this conclusion from the preceding faulty premise.

What buttressed these claims? What evidence is offered? Though no breakdown is given anywhere for Japanese units, all of these conclusions are drawn for Japanese imports. Nowhere was the extent of coverage of Japanese vehicles mentioned, and it is impossible to make such glowing predictions for the future.

Section 3. Service Availability for Japanese Vehicle Parts (Exhibit 1–10)

A. Service Capabilities of Dealer Channel

Page 6, Line 1 Cites Exhibit 1–10, Comparing Japanese and U.S. car dealers.

Comment: While three sources are listed, including JAMA, it is not mentioned who specifically should get the credit for the information, and who supplied which information.

No mention is made of any overlap between domestic and Japanese dealers. It would be helpful to know the number of dealerships handling both domestic and Japanese makes.

Lines 3–4 "For Japanese vehicles in the U.S., as there are fewer dealers than for U.S. domestic make vehicles, the absolute number of service outlets is limited."

Comment: Certainly no comparative disadvantage may be drawn from this very relative statement.

Lines 5-12 ". . . both the U.I.O. per service bay and U.I.O. per mechanic for Japanese vehicles are lower than for domestic makes. This can be interpreted to mean that the Japanese dealer channel does not fall below that of U.S. domestic car dealers, and that the Japanese car dealer channel has the capability to offer vehicle owners an equivalent level of service."

Comment: Who has made this interpretation, on what grounds, and by what procedures?

Lines 13-16 Shows the parts fill rate of Japanese car distributors for four leading Japanese imports as very similar to U.S. auto makers supply rates.

Comment: The figures actually show just how actively the Japanese participate in their dealer channel.

B. Satisfaction of Japanese Car Owners in the U.S.

Lines 17-19 In the matter of satisfaction, the report notes "although various owner surveys are carried out, according to certain surveys of import cars, the following results have been noted."

Comment: What are the "various owner surveys (that) are carried out"? Why were these "certain surveys" results noted?

1. MEMA (Exhibit 1-11)

Lines 20-24 Cites MEMA owner survey, 1978. Of American small car owners surveyed, 76 percent felt American small cars are easier to get serviced, while 2.8 percent felt foreign small cars are easier to get serviced. Results shown in Exhibit 1-11.

Comment: This does not pertain to the Japanese vehicle issue. If "various owner surveys are carried out", why is this one chosen, which does not specifically mention Japanese vehicles?

Lines 25-26 JAMA qualifies the MEMA findings. *"It must be noted that this survey was merely an expression of owner presumption and was not one of owner experience of difficulty in obtaining service."*

Comment: So, it is a matter of owner presumption versus owner experience—not much of a survey finding.

What cars did the respondents own, and how much can be construed as presumption versus experience? Surely, there must have been some owner experience if 76.8 percent could answer that American small cars were more easily serviced, as opposed to 2.8 percent who felt foreign small cars were more easily serviced.

2. Time marketing

Lines 27-30 Cites the satisfaction of 800 Datsun 200 SX owners surveyed.

Comment: Now JAMA shifts to a comparison with survey results of 800 Datsun 200 SX owners, a very specific pool versus the undefined pool above.

3. Money magazine

Lines 31-36 Cites August, 1980 Money magazine report of survey results compiled by Mr. Peter Bohr. Bohr surveyed 25,000 vehicle owners.

Comment: No explanation is offered for who Peter Bohr is, and there is no exhibit showing the results.

No specific figures are advanced showing that "the owners of Toyota, Datsun, Honda vehicles expressed a higher level of satisfaction with their dealer service than surveyed owners of U.S. domestic small cars."

One would presume that JAMA is not calling this one "owner presumption."

Lines 35-36 Also noted, but do not show: "For the large majority of Japanese makes, parts were readily available."

Comment: What is meant by the "large majority?" For what share, "small minority", were parts not readily available? Why not carry the argument further; having said that owners were more satisfied with Japanese than domestic, how many felt parts were readily available for U.S. domestic small cars?

4. John C. Maloney & Associates, Inc. (Exhibit 1-12)

Page 5, Line 1 Cites Exhibit 1-12, Maloney study of 15,000 small car owners.

Comment: One drawback is that while it mentions Toyota, Datsun, Honda specifically, it does not list the "other imports" surveyed or the "competitive domestics" surveyed.

Lines 7-9 JAMA concludes: "Judging from these surveys, Japanese car owners are relatively satisfied with the service parts availability of Japanese car dealers which is comparable to the level of satisfaction of domestic U.S. makers."

Comment: JAMA draws its conclusion from some rather suspect survey material.

While JAMA notes the strong satisfaction, it brings into question the steep decline of 20 percent which they project for their dealers over the next five years, a

rate of decline double the 9 percent they portray for U.S. dealers (Page 5, Line 17-18)

C. Service for Japanese Vehicles Outside the Dealer Channel (Survey results showed the following.)

1. Import Car magazine (Exhibit 1-13)

Lines 12-15 Using Exhibit 1-13, (Import Car survey of 1,750 service outlets for import cars), JAMA states in lines 14-15 that it "showed that almost all types of service for import cars are being performed by such outlets."

Comment: None of this pertinent to the discussion of Japanese imports. Exhibit 1-13 shows indeed, that in varying degrees of percentage shares, every type of service is performed by outlets on imports. It does not portray the percentage of respondents performing each type of service for Japanese imports.

Line 16-18 "In particular, voer 90 percent of all outlets surveyed reported that they offered engine tune-up, brake, shock absorbers, engine hard parts and electrical repair service for import vehicles."

Comment: JAMA says "in particular", but this high rate is not broken down for Japanese vehicles, and is of no relevancy to the discussion.

Also, as noted, this percentage of respondents reported they "offered" services. Offering of course is very different than actually performing.

Lines 19-20 "Further, two-thirds of the outlets surveyed offered various types of service for Japanese vehicles."

Comment: JAMA finally gets dwon to some figures, but they are not statistically relevant. One does not know of the two-thirds that offered the service how much business each had for Japanese vehicles in each type of service.

2. Brake and Front End magazine (Exhibit 1-14)

Lines 21-23 Using Exhibit 1-14 (Brake and Front End 1979 survey), "84 percent of retail service outlets surveyed offered some type of service for import vehicles."

Comment: Again, this does not address the Japanese import issue. Nowhere is any empirical evidence presented regarding volume of Japanese import business at these outlets.

Line 24 Reports "imports accounted for 16.8 of overall sales."

Comment: Again, there is no breakdown for Japanese imports. Of the significant portion responding that they offered services, 16.8 percent of the overall sales were for imports. The recurring deficiency is the lack of a breakdown for Japanese imports.

3. Irving Cloud Publishing Co.

Lines 26-28 Cites the 1979 Irving Cloud Publishing Company survey findings that 89 percent of all jobbers surveyed handle parts for import vehicles. and more than 80 percent maintain a machine shop for necessary import car services.

Comment: It says nothing about the degree to which jobbers handle parts for Japanese vehicles or perform machine shop services for Japanese imports. Again, it is vastly different to offer services than to actually perform services for Japanese imports.

There is no exhibition of these survey results.

4. A.T. Kearney Inc.

Lines 30-31 Cities A. T. Kearney, Inc. finding that "80 percent to 90 percent of warehouse distributors and jobbers surveyed handle replacement parts for Japanese vehicles."

Comment: Although A. T. Kearney Inc. is JAMA's contractor the nebulous "80 percent ot 90 percent" result are not exhibited.

There is no adequate description of the population surveyed.

Lines 32-34 Notes the majority had a limited line of parts for Japanese vehicles.

Comment: What specifically is the "majority?" What is meant by "limited line"?

These nebulous figures contrast sharply with the glowing report made on Page 5, Line 23-27. Of the warehouse distributors surveyed, 86.3 percent reported that they handle parts for import vehicles, a sharp increase in comparison with the status in 1973, when the survey showed that 65.6 percent of the warehouse distributors handled import parts.

Taking the two together, the real conclusion might be stated: while many more warehouse distributors handle import parts in 1980 then did in 1973, their handling of Japanese parts is very limited. So, what happened to all the growth?

Page 8, Line 1-2 "Further, in 1980 5 percent to 10 percent of the warehouse distributors, jobbers were handling a full line of replacement parts for Japanese vehicles."

Comment: Indeed, the majority had a limited line. while it does not say it, this means A. T. Kearney found that 90 percent to 95 percent of warehouse distributors and jobbers had no full line, but degrees of limited lines. How "limited", cannot be discerned from this vague report.

Page 8, Lines 2-3 JAMA concludes: "By 1985, this (percentage handling full Japanese line) is estimated to increase to 20 percent to 30 percent of all warehouse distributors and jobbers."

Comment: JAMA draws its conclusion from the preceding shaky figures. Who estimates this increase, and on what statistical basis?

The estimated increase is especially suspect in light of the wide gap between the growth rate in warehouse distributors handling import lines and the small number that now handle a full Japanese line.

Lines 4-7 JAMA draws the conclusion: "Thus, from the above, it can be concluded that even outside the dealer channel, service for Japanese vehicles is available to a wide extent and that owners of Japanese vehicles can obtain an equitable level of service for their vehicles."

Comment: JAMA's information, if anything, truly shows how very improbable it would be for U.S. independent channels to pick up a 20 percent share in the market to compensate for the wildly improbable projections for a 20 percent decline in their dealers' share.

Comment on Chapter I: The entire chapter flies in the face of Japan's own stated commitment in the Trade Facilitation Committee (TFC) process. According to a Commerce Department source, the Japanese have promised to take some steps to open up their dealerships. This report contradicts those intentions, insisting that the Japanese need not do anything. According to the report's Introduction, it indicates "the direction that we feel should be taken to result in increased participation by U.S. manufacturers in the U.S. replacement parts market for Japanese vehicles." (Page 2, Lines 17-18)

CHAPTER III. ADOPTION OF U.S.-MADE AUTOMOTIVE PRODUCTS—PRESENT AND FUTURE

Section 1. U.S.-made Automotive Products Handled by Japanese Car Distributors

Page 26. Lines 1-5 Reports that "each Japanese auto maker has continued to adopt U.S. made automotive products for the U.S. market as produced by the U.S. automotive manufacturers to the greatest degree possible with full efforts to promote and sell such automotive products through their Japanese car dealers in the U.S."

Comment: What is meant by the "greatest degree possible" and the term "full efforts to promote and sell such automotive products through their . . . dealers in the U.S."? No evidence for these claims is offered.

Lines 6-7 "And, and present, each Japanese auto maker is handling a large volume of U.S.-made automotive products."

Line 8 To buttress the claim in Lines 6-7, JAMA introduces its own compiled statistics. (Exhibit 3-1)

Comment: Exhibit 3-1 is entitled "Japanese Car Distributors' Purchase of U.S.-made Automotive Products." It is noteworthy that the report now speaks of automotive products of U.S. manufacturers rather than parts. What is the significance of this change of terminology?

It is also significant that while the title of the exhibit uses the term U.S.-made automotive products, in the text discussing the exhibit, (Lines 8-11), JAMA notes that "in 1979, Japanese auto makers exported $350 million worth of *replacement parts* to the U.S. And, their purchases of U.S.-made *automotive products* amounted to $150 million in the same year. (emphasis added)

Exhibit 3-1 does not show a figure for "each Japanese auto maker," even though JAMA is the source cited. The chart shows a phenomenal growth in Japanese export shipment of replacement parts from 1977 to 1978. Sales increased 40.3 percent from $248,034,000 in 1977 to $347,996,000 in 1978. During the same period, JAMA reports that Japanese distributors increased purchases of U.S.-made automotive products from $80,359,000 in 1977 to $85,315,000 in 1978, a change of approximately 6.2 percent.

Then, one is expected to believe that after a period of 40.3 percent growth in replacement parts exports, the Japanese actually decreased their parts exports from the 1979 figure of $347,996,000 to $347,283,000 (1979). Thus, after a period of rapid growth, the Japanese follow with a decline. But in their same period of decline, it is alleged that purchases of U.S.-made automotive products grew at a rate of about 78 percent. Only the year before, it had grown at 6.2 percent. To what is this due?

Lines 11-14 JAMA claims that the "rate of local purchases of U.S.-made automotive products (100) as compared to the export value of replacement parts comes to 43.4 percent points, a very high rate."

Comment: This growth is from a very small base, which is not mentioned. The important comparison to be made in Exhibit 3-1 is the percentage shares. When comparing, the Japanese have 70 percent and the U.S., 30 percent. So much for "very high" rates.

Lines 14-16 "This trend can be interpreted and forecasts that each Japanese auto maker will be making efforts hereafter in accordance with the growth of the Japanese vehicle market in the U.S."

Comment: It is never explained how this trend is interpreted. Should it be interpreted to mean that Japanese shipment of replacement parts to the U.S will continue to decline? Is that the trend of the future?

It does not show anywhere who is forecasting or how a forecast is made for "each Japanese auto maker" to make "further efforts hereafter in accordance with the growth of the Japanese vehicle market in the U.S."

Section 2. U.S. Parts Manufacturers' Participation in the Replacement Parts Market for Japanese Vehicles

A. Status of U.S. Parts Manufacturers' Participation

Lines 20-23 "As previously stated in Section 1 of Chapter 1, approximately 50 percent of the total market of $1.06 billion for Japanese replacement parts is sold outside the dealer channel in the U.S. Thus it can be noted that many U.S. manufacturers are actively participating in this market."

Comment: How is this conclusion reached that if 50 percent is outside the dealer channel, it can be noted that many U.S. manufacturers are active in the market?

Does the term "many U.S. manufacturers" refer to manufacturing of automotive products or replacement parts? The discussion has changed back to replacement parts.

Lines 24-27 Cites *Warehouse Distribution* survey, Exhibit 3-2, that 88 percent of U.S. parts manufacturers "have increased the number of items for import cars." The population studied here is the U.S. parts manufacturers manufacturing/selling import car parts.

Comment: What is the difference between manufacturers manufacturing import car parts versus those that manufacture and sell import car parts? For example, a manufacturer may only manufacture one item for imports but may sell many lines of parts made overseas.

They were asked if they "have increased or decreased the number of import car items in your lines during the years you have been offering them?" Nowhere is this discussed or broken down to show plans for increasing Japanese items or an actual increase in items for Japanese cars.

Exhibit 3-2 also shows manufacturers response to the question: "Approximately what percent of your total dollar volume of import car parts is represented by the following makes?" Toyota, Datsun, Honda, Subaru, and Mazda totaled to 61.1 percent.

This offers no gauge of success. What needs to be shown is the percentage of total dollar volume of all parts represented by each Japanese make. While 3-2 shows 88 percent planning an increase in their import item lines, Exhibit 3-7 shows that of the same pool of respondents, 68 percent include in their future plans "wide coverage" for top makes of imports.

Again, none of this addresses the Japanese import issue. The 88 percent planning a line increase times the 68 percent planning "wide coverage" total to only 60 percent of the respondents planning wide coverage for imports.

Figures cited in Chapter I do not support Chapter III contentions of active U.S. manufacturers participation in the Japanese aftermarket. In fact, the "givens" in Chapter I were: (1) 86.3 percent warehouse distributors handle parts for imports (no breakdown for Japanese), up from 65.5 percent in 1973; (2) and 94.6 percent of warehouse distributors procure parts for import cars (no specifics on Japanese) from U.S. parts manufacturers producing such import car parts; STILL (3) only 5-10 percent of warehouse distributors had a full line of Japanese items and the vast majority had extremely limited lines.

Lines 27-30 Report cites Exhibit 3-3, which shows "at a glance" the "import car parts items handled by each of the 250 U.S. parts makers/suppliers."

Comment: This in no way addresses items for Japanese cars, nor is any evidence provided for the percentage share of business represented by items in a line.

Lines 31–55 Report cites Exhibit 3–4. It presents a list of 22 U.S. parts makers and is entitled "Survey of U.S. Parts Makers Producing, Procuring Japanese Car Parts."

Comment: Exhibit 3–4 is fraught with problems. The descriptions of coverage range from "percent coverage" to "all popular imports," most popular Japanese and VW," and "Japanese and VW." What are "all popular imports"? How does this differ from "most popular Japanese and VW"? Of this, how much is for "most popular Japanese" versus "most popular VW"?

Terms are used such as "all major imports," "most major imports," and "most imports." How does "all major imports" differ from "most major imports"? How does "most imports" vary from the above two?

Another classification is "all top lines." What does that mean? No explanation is given for the term "Datsun Only-Expanding." The same criticism applies to the "major import"—70 percent coverage term. Also listed is "Toyota, Datsun and VW only," but no mention is made of the relative shares held by each.

Only in seven cases were the parts 100 percent U.S.-made, with others, listing varying degrees of procurement from abroad. Since comparisons are impossible, the results have no value, and the number studied is insignificant.

B. U.S. Production of Replacement Parts for Japanese Vehicles

Page 27, Lines 2–4 Cites Exhibit 3–5 survey results that "66 percent of all manufacturers surveyed are producing parts for import vehicles."

Comment: This does not address the Japanese aftermarket issue.

This paper's previous analysis showed that even if 66 percent manufacture any type of replacement parts for imports, very few have anything but limited lines for Japanese imports. (Nowhere of course, is any of this related to U.S. difficulty in entering the Japanese original equipment (O.E.) market.)

Furthermore, if one takes the 88 percent of so-called U.S. parts manufacturers manufacturing/selling parts for imports who plan to increase their lines (not specifically Japanese) times the 66.2 percent who make any type of import parts, one finds that only 58 percent of U.S. parts manufacturers make parts for imports and plan to expand their product lines. This means that about 42 percent of all U.S. parts manufacturers either make no such parts or do not plan to increase lines if they do make them.

Lines 5–8 Cites Exhibit 3–6, entitled "The Status of Japanese Car Parts Production by U.S. Parts Makers." The source of the survey is JAMA contractors A. T. Kearney and Management Perspectives, Inc.

Comment: In Part I, eight examples are given of U.S. makers "producing almost all applications of replacement parts for Japanese vehicles."

What is meant by almost all applications? For which makes and models? For one make and model, or two or three? Also, no value is stated anywhere for the volume of Japanese purchases compared to domestic sales.

In Part II, five examples are given of U.S. makers producing limited items. What in the world does "limited" mean? Nowhere is spelled out how many makes, models, or percentage of total sales involved. Just because they make it does not assure that the Japanese are buying any appreciable amount.

The 13 examples given are such a small number that the findings have no statistical value. What is needed is a random sample; a scientific study.

Lines 9–12 The report cites "Small Japanese U.I.O. and the rather young age of the U.I.O." as the reasons why the "current situation with overseas affiliate companies or by importing is sufficient."

Comment: The two reasons cited are specious. This, finally, is JAMA's admission, and after all of its report's strivings to show how actively U.S. manufacturers are participating in the Japanese replacement market.

C. Outlook

Lines 25–26 The report confuses a 95 percent figure found in Exhibit 1–9.

Comment: Exhibit 1–9, which this paper disputed, showed that 95 percent of warehouse distributors selling import car parts purchase replacement parts "from U.S. manufacturers who also make import car parts." This has absolutely nothing to do with the claim that "95 percent of the import car parts handled by warehouse distributors are purchased from U.S. parts manufacturers."

Lines 27–29 JAMA draws the conclusion that warehouse distributors "will certainly be a major pressure and influence on U.S. parts manufacturers to expand their import car parts line and production facilities."

Comment: While this conclusion bears some truth, it is essential that there first be more open dealerships and meaningful access to the Japanese O.E. market.

Page 28, Lines 1-3 Notes that increasing trend to small car production in the U.S. will "place greater emphasis on production technology and facilities for small car parts."

Comment: There will never be any meaningful trend without a better U.S. share in the Japanese O.E. market.

Lines 3-6 "As the market participation of U.S. parts manufacturers accelerate added to the initiation of vehicles production in the U.S. by Japanese auto makers, it needs no explanation that the production of parts for Japanese vehicles will develop dramatically."

Comment: This statement requires a great deal of explanation for the anticipated dramatic effects. This is based on the questionable premise of accelerated U.S. participation.

It leaves out an important condition, that of future Japanese parts production in the U.S., tied to "vehicle production in the U.S. by Japanese auto makers."

Lines 5-6 The report concludes that "production of parts for Japanese vehicles will develop dramatically."

Comment: It is noteworthy that JAMA chose the phrase "production of parts" *rather than saying* "U.S. production of parts" for Japanese vehicles will develop dramatically.

Lines 7-10 The report concludes: *"Although a portion of the replacement items (for Japanese cars) may not be feasible for production by U.S. parts makers in terms of economic lot production, it can definitely be said, that in general, the opportunity for U.S. parts makers in the replacement parts market for Japanese vehicles will increase more and more."*

Comment: The conclusion is a classic understatement. It makes no note, of course, of O.E. market entry and dealer impediments to production of more than just a portion of replacement items.

The second part of the conclusion is rather nonsensical but optimistic. It states "in general" there will be increasing opportunities, but as throughout the report, one never learns the specifics. A general conclusion drawn from many generalities.

APPENDIX E

A BILL To Amend the Tariff Schedules of the United States To Create a Passenger Automobile and Automobile Truck Part and Accessory Duty Remission Item Classification.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. FINDINGS; PURPOSE.

(a) FINDINGS.—The Congress finds that—

(1) in recent years the United States has been inundated with importations of foreign-built passenger automobiles and automobile trucks,

(2) these importations have been stimulated in large part by the low duty rates imposed on passenger automobiles by the United States,

(3) as a result of the large volume of importations of foreign-built passenger automobiles and automobile trucks, the United States automotive industry has suffered immeasurable economic injury,

(4) the economic injury which has occurred has not been limited to the domestic automotive industry but has also been felt by domestic suppliers of automotive parts and accessories, and

(5) unusual and immediate measures are required to reverse the economic injury to the United States automotive industry and to prevent further injury.

(b) PURPOSE.—It is the purpose of this Act to provide an incentive for motor vehicle manufacturers in foreign countries to purchase United States automotive components by establishing a passenger automobile and automobile truck part and accessory duty remission item classification under the Tariff Schedules of the United States which would allow for the remission of duties on imported passenger automobiles and automobile trucks under certain circumstances.

SEC. 2. MOTOR VEHICLE PART AND ACCESSORY REMISSION CLASSIFICATION.

(a) IN GENERAL.—Subpart B of Part 1 of Schedule 8 of the Tariff Schedules of the United States (19 United States Code section 1202) is amended by inserting the following new item:

ITEM 807.50

"Motor vehicles classified under Item 692.10 and Item 692.02 of the Tariff Schedules, manufactured in a foreign country which have installed thereon parts and ac-

cessories produced in the United States which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting. Providing that such United States origin parts and accessories have been exported from the United States, the imported motor vehicles may contain motor vehicle parts and accessories equivalent to and in lieu of the United States motor vehicle parts and accessories exported from the United States."

(b) DUTY RATE.—The duty ascribed to Item 807.50 shall be as follows: "A duty upon the full value of the imported motor vehicle, which duty is reduced by the cost or value of such products of the United States, even though products in lieu thereof may have been installed on the motor vehicle. (See headnote 3 of this subpart.)"

SEC. 3. HEADNOTE REVISION.

(a) IN GENERAL.—Headnote 3 of Subpart 3 of Part 1 of Schedule 8 of the Tariff Schedules of the United States (19 United States Code section 1202) is amended by altering the title of the headnote from "Articles assembled abroad with components produced in the United States" to Articles assembled abroad with components produced in the United States or components in lieu thereof."

(b) INCLUSION OF ITEM 807.50.—Headnote 3 shall be amended to apply to Item 807.50 as well as Item 807.00.

(c) REVISION OF HEADNOTE 3(b).—Headnote 3(b) is amended by redesignating such headnote as 3(c) and by amending the first sentence by inserting at the beginning thereof the clause—"For purposes of Item 807.00."

(d) HEADNOTE 3(b) REPLACEMENT.—Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(b).

"For purposes of Item 807.50, the value of the products in lieu of products of the United States assembled into the imported articles shall be deemed the same as the value of products of the United States as referenced in the above sections (a), (i) and (ii)."

(e) HEADNOTE 3(d).—Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(d).

"For purposes of Item 807.50, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced by an amount equal to the cost or value of such products of the United States installed on the imported article. Should products in lieu of products of the United States be installed on the imported article their cost or value shall be deemed the same as the cost or value of the products of the United States for which they are substituted. Under no circumstances will a credit be granted for the value of products in excess of the duty due."

(f) HEADNOTE 3(e).—Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(e).

"For purposes of Item 807.50, all parties who meet the general requirements and applicable regulations of Item 807.50 shall receive the duty treatment specified therein during 1983. Thereafter, any party requesting Item 807.50 treatment during any given year must for the immediate prior year (first base year) meet the following criteria:

The requesting party's percentage, as calculated in United States dollars, of its purchases of United States origin passenger automobile and/or automobile truck parts and accessories to its exports of passenger automobiles and/or automobile trucks to the United States must either increase or remain constant over the previous year (second base year).

In the event there is any decrease in dollar volume of purchases of United States origin parts and accessories in any given year by the requesting party, such party will be ineligible to receive Item 807.50 treatment for the immediate subsequent year. This ineligibility shall apply even though there may have existed a corresponding or greater decrease in exports of passenger automobiles and/or automobile trucks to the United States resulting in an overall percentage increase or percentage constant in purchases of United States origin parts and accessories to exports of passenger automobiles and/or automobile trucks to the United States.

Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the requesting party will again be eligible to re-

ceive Item 807.50 treatment once the previous high in dollar volume of purchases of United States origin parts and accessories has been reached or surpassed. For purposes of such calculations, the previous high in purchases of United States origin parts and accessories shall remain the base figure until it has been surpassed. The base figure for exports shall be the actual figure for the base year in use."

SEC. 4. AUTHORITY TO PROMULGATE REGULATIONS.

The Secretary of the Treasury is expressly authorized to promulgate and implement regulations for the regulation of the foregoing legislation.

SEC. 5. EFFECTIVE DATE.

The amendments made by Sections 2 (a) and (b), Sections 3 (a), (b), (c), (d), (e) and (f) and Section 4 shall apply with respect to articles entered or withdrawn from warehouse for consumption on or after January 1, 1983.

SEC. 6. STUDY TO DETERMINE WAYS TO INCREASE THE USE OF AMERICAN-MADE NEW AND REPLACEMENT PARTS BY FOREIGN MANUFACTURERS AND OF DISCRIMINATORY PRACTICES AFFECTING DOMESTIC PRODUCTION OF MOTOR VEHICLE PARTS

Within one year after the date of the enactment of this act, the Secretary of Commerce shall undertake an investigation and submit to Congress a written report determining how to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers. The investigation and report shall also encompass the policies and practices that are used by vehicle manufacturers to cause United States motor vehicle dealers to choose foreign-made replacement parts for motor vehicles rather than domestically produced parts. Such report shall include but not be limited to recommended administrative or legislative action that the Secretary considers appropriate to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers and to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

APPENDIX F

PROPOSED LEGISLATION TO GRANT RELIEF TO THE U.S. AUTOMOTIVE INDUSTRY BY CREATING AN INCENTIVE FOR VEHICLE MANUFACTURERS IN FOREIGN COUNTRIES TO PURCHASE U.S. ORIGIN AUTOMOTIVE COMPONENTS

A. INTRODUCTION AND PROPOSED OUTLINE

Foreign-made passenger automobiles and automobile trucks have inundated United States' markets in recent years. Our low duty rates on these items in large part stimulated the imports. Schedule 6 of the Tariff Schedules of the United States sets no quota restrictions and assesses a low duty rate of 2.8 percent ad valorem on passenger automobiles. Foreign vehicle manufacturers place great weight on our low duty rates, evidenced by the negative reaction to a reclassification raising the duty on automobile truck cab and chassis from 4 percent ad valorem to 25 percent ad valorem. Our duty rates contrast starkly with those of our major trading partners, such as France, Italy, Germany, The United Kingdom and Canada which impose duty rates on automobiles as high as 14 percent ad valorem. Many of these nations also restrict the number of vehicle imports.

The flood of foreign-built passenger automobile and automobile truck imports has caused the United States automotive industry immeasurable economic harm. The injury has devastating effects that reach well beyond vehicle manufacturers to the thousands of original equipment and replacement parts suppliers. The damage is rending the entire United States economy. The injury must not develop into a chronic condition. We must take extraordinary and immediate steps to halt that deterioration.

Our plan offers foreign vehicle manufacturers the incentive to save hundreds of millions of dollars by purchasing United States made automotive products. The plan would create a new passenger automobile and automobile truck component duty remission item classification under the Tariff Schedules of the United States. This is a novel approach to the duty remission provisions now in the law. The current duty remission provisions permit the value of United States made parts to be deducted from the value of the vehicles upon which they enter the United States, before the duty is applied.

The effective duty reductions have afforded little incentive for purchasing products made in the United States and, since the parts must return on vehicle imports to this country, the current provision foregoes the prospect of installing United

States made products on vehicle shipments to third markets. Our plan addresses both limitations. First, it provides a credit that could reduce the amount of duty on a vehicle import one dollar for every dollar of United States product which the manufacturer purchases. While current law cuts the amount to be taxed, our plan cuts the tax itself. Second, our plan opens the door to valuable aftermarket sales opportunities worldwide, since installing United States origin parts on vehicles bound for other countries does not jeopardize the credit.

The first stage in the voluntary plan is for the vehicle manufacturers in a foreign country to purchase United States origin parts and accessories. The Secretary of the Treasury will prescribe regulations to monitor the purchase orders and exports.

In the second stage, when the vehicle manufacturer exports to the United States, Customs officials will calculate the amount of duty on the full value of the automobiles and automobile trucks at the rate of 2.8 percent ad valorem and 25 percent ad valorem, respectively. The duty then will be reduced by an amount equal to the cost or value of United States origin parts and accessories purchased if either such parts and accessories or equivalent parts and accessories are installed on the motor vehicle.

Vehicle manufacturers in foreign countries who participate in the voluntary program will pay effective duty rates well below 2.8 percent ad valorem and 25 percent ad valorem. In fact, there is incentive for them to purchase enough United States products to land their vehicles in the United States duty free. However, under no circumstances will a credit for the value of parts be granted in excess of the duty otherwise due.

The proposed program would be available to all foreign-based motor vehicles manufacturers during its first year of operation. Thereafter, the program would only be available to foreign-based motor vehicle manufacturers who for the prior year maintained or increased the percentage as calculated in United States dollars, of their purchases of United States origin automotive parts and accessories to their exports of motor vehicles to the United States. In the event there was a decrease in dollar volume of purchases of United States origin parts and accessories in any given year, the foreign-based manufacturer would be ineligible to receive the duty credits for the immediate subsequent year. This ineligibility would apply even though there may have existed a corresponding or greater decrease in exports resulting in an overall percentage increase or percentage constant in purchases of United States origin automotive parts and accessories to exports of motor vehicles to the United States. Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the foreign-based manufacturer would again be eligible to participate in the program once the previous high in purchases of United States origin parts and accessories has been reached or surpassed.

The program will be totally voluntary and the Secretary of the Treasury will prescribe regulations for its implementation and functioning.

B. SECTION ANALYSIS OF PROPOSED LEGISLATION

Section 1 of the proposed legislation outlines the findings of Congress and purposes of the Act.

Section 2 of the proposed legislation provides for a new item classification in the Tariff Schedules of the United States. This item classification could effectively lower the duty rates provided by the Tariff Schedules. It reduces the amount of duty due by an amount equal to the value of the United States origin parts and accessories which the vehicle manufacturer purchases and may install on motor vehicles.

The new item classification imposes a duty upon the full value of the passenger automobile or automobile truck. That duty is then reduced dollar for dollar by the cost or value of United States products purchased, even though the manufacturer may install non-United States made equivalent products on its exports to the United States. However, a credit will not be granted for the value of purchases of United States origin products in excess of the actual duty due.

Section 3 of the proposed legislation makes the necessary amendments to the applicable headnotes in order that the value and cost of the United States parts and accessories or parts and accessories in lieu thereof can be determined for duty purposes. It further provides that after the initial year of the program, eligibility for the program will be directly linked to the dollar volume of automotive parts and accessories purchases as they relate to the volume of motor vehicle imports. Once the amendments are enacted, the revised headnotes will read as follows:

3. *Articles assembled abroad with components produced in the United States or components in lieu thereof.*—The following provisions apply only to Items 807.00 and 807.50.

(a) The value of the products of the United States assembled into the imported article shall be—

(i) the cost of such products at the time of the last purchase; or

(ii) if no charge is made, the value of such products at the time of the shipment for exportation,

as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent a reasonable cost or value, then the value of such products shall be determined in accordance with section 402 of this Act.

(b) For purposes of Item 807.50, the value of the products in lieu of products of the United States assembled into the imported article shall be deemed the same as the value of products of the United States as referenced in the above sections (a), (i) and (ii).

(c) For purposes of Item 807.00, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced in such proportion as the cost or value of such products of the United States bears to the full value of the imported article.

(d) For purposes of Item 807.50, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced by an amount equal to the cost or value of such products of the United States installed on the imported article. Should products in lieu of products of the United States be installed on the imported article their cost or value shall be deemed the same as the cost or value of the products of the United States for which they are substituted. Under no circumstances will a credit be granted for the value of products in excess of the duty due.

(e) For purposes of Item 807.50, all parties who meet the general requirements and applicable regulations of Item 807.50 shall receive the duty treatment specified therein during 1983. Thereafter, any party requesting Item 807.50 treatment during any given year must for the immediate prior year (first base year) meet the following criteria:

> The requesting party's percentage, as calculated in United States dollars, of its purchases of United States origin passenger automobile and/or automobile truck parts and accessories to its exports of passenger automobiles and/or automobile trucks to the United States must either increase or remain constant over the previous year (second base year).

In the event there is any decrease in dollar volume of purchases of United States origin parts and accessories in any given year by the requesting party, such party will be ineligible to receive Item 807.50 treatment for the immediate subsequent year. This ineligibility shall apply even though there may have existed a corresponding or greater decrease in exports of passenger automobiles and/or automobile trucks to the United States resulting in an overall percentage increase or percentage constant in purchases of United States origin parts and accessories to exports of passenger automobiles and/or automobile trucks to the United States.

Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the requesting party will again be eligible to receive Item 807.50 treatment once the previous high in dollar volume of purchases of United States origin parts and accessories has been reached or surpassed. For purposes of such calculations, the previous high in purchases of United States origin parts and accessories shall remain the base figure until it has been surpassed. The base figure for exports shall be the actual figure for the base year in use.

Section 4 of the proposed legislation authorizes the Secretary of the Treasury to promulgate and implement regulations for the regulation of the program.

Section 5 of the proposed legislation establishes the effective date of the Act to be January 1, 1983.

Section 6 of the proposed legislation directs the Secretary of Commerce to undertake a study to determine ways to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers. The study is also to encompass the policies and practices that are used by vehicle manufacturers to cause United States motor vehicle dealers to choose foreign-made replacement parts for motor vehicles rather than domestically produced parts. A report of the study is to be submitted to Congress within one year of the date of enactment of the Act. It is to contain recommended administrative and legislative action to increase the use of

American-made new and replacement motor vehicle parts by foreign manufacturers and to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

CANADIAN EMBASSY,
Washington, D.C., September 15, 1983.

The Honorable DAN ROSTENKOWSKI,
U.S. House of Representatives, 2111 Rayburn House Office Building, Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: I wish to bring to your attention the implications which Bill H.R. 1234, the Fair Practices in Automotive Products Act, holds for trade in automotive products between Canada and the United States and to ask you to take this into consideration when the Committee on Ways and Means examines the bill.

A bilateral agreement between the governments of the United States and Canada, the Automotive Products Agreement of 1965, implemented by legislation passed by Congress, provides the basis for the close integration of the U.S. and Canadian automotive industries. This integration has provided increased efficiencies in the operations of the North American automotive companies. Rationalization and specialization of production have resulted in higher employment in the automotive industries in both countries and a quantum leap in trade flows between our two countries. For example, some 70 percent of North American type vehicles sold in Canada are manufactured in the United States. Exports of automotive products from the United States into Canada in 1982 totalled $13.6 billion, representing 33.9 percent of total U.S. exports of manufactured goods to Canada.

Bill H.R. 1234 as now drafted provides no recognition of this unique interrelationship and the resultant integration of the automotive industries in Canada and the United States. Rather, it would place the Canadian automotive industry in the same position as offshore motor vehicle manufacturers.

I trust you will agree that it is in the interest of both our countries to preserve the mutual advantages accruing from the bilateral Automotive Agreement. I urge you to explicitly recognize this commitment on the part of the United States in your consideration of Bill H.R. 1234.

Yours sincerely,

ALLAN GOTLIEB, *Ambassador.*

STATEMENT OF GENERAL MOTORS CORP.

General Motors appreciates this opportunity to update our views on legislation requiring certain levels of domestic content in autos sold in this country.

When we last testified before the House Energy and Commerce Subcommittee on Commerce, Transportation and Tourism on H.R. 1234, the domestic content bill, we said:

"General Motors is sympathetic to the objectives of domestic content legislation, that is, to strengthen the American auto industry and increase American jobs. We do not believe, however, these objectives can be achieved through legislation—which is often inflexible and unpredictable in its results. The difficulties of our industry ultimately will not be resolved in legislative halls, but rather in the marketplace where success is earned by offering superior products at competitive prices.

"Rather than seek shelter from competition—even temporarily—in laws and regulations, U.S. automakers must continue their efforts to meet and exceed foreign competition. We must be more cost-effective in the manufacture of small cars. We must be a leader in the management of technology. Labor and management must continue their united efforts to make our costs competitive. And productivity and quality improvements must be our constant goal. General Motors believes this is the only road to a lasting recovery for our industry. It is a difficult road—but in the long run it is the only viable approach."

In the last few years, the U.S. auto industry has come through a period of enormous change. In the face of recession and worldwide competitive challenge, we have updated our products, plants and processes; modernized management and increased employe involvement; improved quality; cut costs; and streamlined our operations. And our hard work is beginning to pay off. As the economy has begun to recover, so too has the domestic auto industry.

Since the beginning of this year General Motors recalled 65,000 of our laid off employees. Domestic auto industry sales for the 1983 model year are up 15 percent

over 1982. U.S. dealer inventories were at a 16 year low at the end of August. The industry is again realizing a profit.

We cannot afford to forget, however, that the auto industry worldwide is intensely and increasingly competitive in all of its activities. Thus, while we have seen and made revolutionary changes in our industry, there is now and will continue to be much work left for us to do.

Turning again to domestic content legislation, General Motors' position has not changed from that expressed in previous testimony before this Subcommittee, and the Energy and Commerce Subcommittee, and in a June 30, 1983 letter to Chairman Gibbons. As we said then, GM is sympathetic to the objectives of such legislation—but we do not believe these objectives are best met through legislation.

Rather, we continue to believe that the domestic auto industry can and should solve its problems in the marketplace. The discipline of having to compete constantly for the business of American consumers is absolutely necessary to insuring the long term health of our industry. As recent years have amply demonstrated, the demands of the marketplace lead us to rethink our managerial practices, reduce our costs, develop new business strategies and upgrade our machinery and plants.

The U.S. government can best help the domestic auto industry by establishing a policy which encourages American firms in maintaining and improving their international competitiveness through creation of an environment promoting flexibility of action. To attempt to curtail industry flexibility, through such measures as H.R. 1234, in the face of intensifying worldwide competition would weaken the U.S. economy. Unless American companies are able to trade and invest freely, both the competitiveness of the U.S. production base and the competition-stimulated efficiency of the worldwide industry as a whole will suffer, as will American employment and economic well-being.

Attachment.

GENERAL MOTORS CORP.,
Detroit, Mich., June 30, 1983.

The Honorable SAM GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for our current views on H.R. 1234, the proposed "Fair Practices in Automotive Products Act." We appreciate your asking for our comments.

The current bill is very similar in intent and substance to last year's bill H.R. 5133. Our views have not changed on this issue since I appeared before your Subcommittee last September.

We continue to support the principle of domestic production and sales and to sympathize with the objectives of the content legislation. However, we still do not believe that legislation is the best way to achieve these objectives. We firmly believe our success must be earned in the marketplace by offering superior products at competitive prices.

We believe our proposed joint venture with Toyota to produce a car in this country is an example of this approach.

Again, thank you for soliciting our comments on this important piece of legislation. We know you and your Subcommittee will contine to consider the legislation carefully.

Sincerely,

ROGER B. SMITH, *Chairman.*

STATEMENT OF NISSAN MOTOR MANUFACTURING CORP., U.S.A.

Nissan Motor Manufacturing Corporation U.S.A. is a subsidiary of Nissan Motor Company, Ltd., of Japan, and constitutes Nissan's entry into the automobile manufacturing business in the United States. Nissan Motor Manufacturing Corporation U.S.A. is located in Smyrna, Tennessee, near Nashville. We appreciate the opportunity to update our views on H.R. 1234.

It has been almost exactly one year since Nissan testified before the Trade Subcommittee on the domestic content bill. At that time, our truck manufacturing facility was little more than a skeleton. We produced our first truck for the U.S. market on June 16th of this year, two months ahead of schedule. Our production will accelerate gradually over the coming year. We expect to be producing about 7,500 units monthly in December and up to 10,000 monthly by mid-1984.

Our testimony last year focused on three topics. The first was Nissan's long-term commitment to the U.S. market as part of its overall strategy to become a truly

transnational corporation. The second was the size and scope of our operations: a $660 million investment in land, plant and equipment that is the largest manufacturing investment by a Japanese company outside Japan; a total $1 billion commitment of funds by Nissan before it earns the first dollars of profit; 78 acres of production facilities under roof; the most technologically advanced facility in the Nissan system, including 220 robots. The third theme was why Nissan cannot comply with the requirements of the domestic content bill and how the legislation would seriously jeopardize our operations in Tennessee.

In last year's testimony, we indicated that we hoped to achieve a domestic content ratio of 38 percent in our first trucks. We calculated that figure on a manufacturing basis, not on the formula utilized in the domestic content bill, since we did not have adequate information regarding pricing to perform that calculation. Since then, we have found 56 U.S. suppliers for production parts who have proven they can meet our stringent criteria for cost, quality and delivery. As a result, we have exceeded our initial projection by three percentage points. We expect to continue to increase the ratio of domestic parts in our vehicles, and we intend to utilize the maximum United States content available through domestic suppliers who can meet our requirements.

We cannot emphasize strongly enough, however, that our production volume is too small to cost-justify the manufacture of major components such as engines and transmissions in the United States. If we tried to build those major components, our costs and prices would be significantly out of line with those of our competitors. Our ability to compete would be destroyed. Because we simply must continue to import major parts in order to succeed as a manufacturing company in the United States, it is not feasible for us to achieve the 70 percent domestic content level that we anticipate the bill would impose upon use in model year 1987.

Moreover, even if we could reach a domestic content level of 100 percent in the trucks we are building in Tennessee, it would not be possible for Nissan to meet the bill's requirements without moving considerably more of its production to the United States. It is not reasonable to expect Nissan to increase its U.S. investment—which is the Company's largest outside Japan—long before the Company's initial venture in this country proves successful. Finally, given the variety of models involved, and sales volumes, and consequent economies of scale consideration, it would be impossible for Nissan to achieve a 70 percent domestic content ratio while building price-competitive products in the United States.

Proponents of this legislation point to the fact that automotive companies, including Nissan, meet domestic content requirements imposed by other countries. That is true, but it does not make sense for the United States to pursue bad public policy simply because other generally less developed countries do so. Moreover, there is a fundamental reason for which domestic content requirements are not practical in the United States. It is essentially based upon economies of scale. The accompanying bar graph compares the volume of production of passenger cars in the United States with that of the four largest countries with local content requirements. The figures below the graph show production volumes of the leading manufactuers in each of those countries.

1981 Production of Cars in Selected Countries

Australia	Mexico	Brazil	Spain	USA
FO: 110.0	VW: 121.9	VW: 225.6	FA: 269.0	GM: 3,904.1
H: 99.0	CH: 58.1	GM: 99.0	FO: 248.0	FO: 1,320.2
	FO: 54.6	FO: 78.3	S: 204.1	CH: 748.8

(all figures in 000)

FO = Ford; H = Holden (GM); VW = Volkswagen; CH = Chrysler; GM = General Motors; FA = Fasa; S = Seat.

Source World Motor Vehicle Data, 1982
Motor Vehicle Manufacturers Association, Detroit

As you can readily see, the competitive environment is quite different in the United States than in other countries. In each of the other countries the entire production base is small, and the production base of each manufacture is small. The manufacturers are all in the same boat, so to speak, producing relatively low volumes, with consequent similar cost penalties. Since they have similar handicaps, and since import competition is strictly limited, domestic content requirements do not excessively disadvantage any of the producers. Consumers in countries with high content requirements pay, however, with higher prices, typically outdated technology, and limited choices.

If content requirements were introduced in the United States, the implications would be dramatically different for manufacturers. Foreign companies forced to move production to the United States at high levels of domestic content would have low production volumes compared to those of domestic manufacturers. They would incur relative cost penalties and would be placed at a severe competitive disadvantage. They would be at an even more severe disadvantage vis-a-vis small volume foreign manufacturers not required to move production to the United States.

Nissan cannot meet the content ratios mandated by H.R. 1234 and be a viable competitor in the U.S. market. Since Nissan could not meet the content requirements of H.R. 1234, it would be subject to the bill's import quota. That quota would apply both to the production of trucks by our company in Tennessee and to the import of vehicles produced by Nissan in Japan. It would severely limit the number of vehicles Nissan could sell in the United States, and this would adversely affect Nissan's very significant marketing and sales subsidiary in the U.S. as well as its dealer network. Nissan's U.S. operations today provide jobs for 41,000 Americans.

We cannot tell you with certainty what Nissan would do if H.R. 1234 were to become law. We can say, without hesitation, however, that the viability of Nissan in Tennessee would be severely jeopardized. We predict that it will be several years before our Tennessee company breaks even, and even then our projected per unit profits will be modest. Therefore, Nissan could minimize the losses it would suffer as a result of the legislation by exporting lower cost and higher profit vehicles from Japan up to the limit imposed by the bill, rather than by manufacturing vehicles at its facility in the United States. We sincerely hope the Congress will not force Nissan to make that calculation by passing H.R. 1234.

We would also like to give you Nissan's best judgment of what the real effects of this legislation would be on the automotive manufacturing industry in the United States. In addition to the potentially disastrous consequences it would have on our company, this legislation would not solve the U.S. automotive industry's fundamental problems. In our opinion, it would create even more difficult ones over the long term.

First, we believe that production costs of the domestic manufacturers would increase because the bill would limit their flexibility to source least-cost components from foreign suppliers. As a result, U.S. automotive prices would increase.

Second, sales of vehicles by companies like Nissan would be restricted dramatically because of the bill's effective quota, decreasing competition and reducing the choice of vehicles available to U.S. consumers.

Third, domestic companies would probably not benefit from the vacuum created by the limited supply of products available from large Japanese manufacturers. Instead, smaller foreign automotive companies which export volumes requiring little or no domestic content would find their competitive positions strengthened (both vis-a-vis Nissan and U.S. companies), and their sales would expand to the limits imposed by the bill. Over time, the net result could well be an equal or even greater number of automobile imports into the United States than is now the case.

It is ironic that Congress' consideration of something so important as United States industrial competitiveness should be centered in such large measure around H.R. 1234—ironic because this legislation's solution to our competitive challenge is to destroy real competition in the U.S. automotive market, and over time it would make our industry less competitive internationally. The message of this counterproductive legislation is that we cannot compete, so we must close our borders. Congress is certainly correct to be considering ways to improve the competitive position of the U.S. auto industry, but H.R. 1234 is not one of them.

Competitiveness has many ingredients. Among them are the ability and willingness to devote financial resources to a project. The tremendous size of our facility, and the high degree of automation and sophisticated technology utilized in our production processes, reflects Nissan's very substantial financial commitment to U.S. auto manufacturing. Another ingredient of competitiveness, one which we at Nissan believe is the most important of all, is a great workforce. In Nissan's view, people

provide the real key to achieving quality and high productivity in the manufacturing process and to succeeding in both national and international competition.

When we began to assemble a skilled work force for our company, we realized that in order to keep our complex machinery running, we need people with several skills instead of the traditional proficiency in just one skill. Our employees must be able to solve problems, understand basic math and work effectively as members of a team.

To help our people acquire these skills, we developed an intensive training program. Nissan committed $56 million to the largest, most comprehensive educational effort that I know of by a corporation of our size, and the State of Tennessee committed $7 million for the pre-employment training of job applicants.

Pre-employment training, which is conducted during evenings and weekends, lasts for at least six weeks. During this time, the State provides up to 360 hours of training in welding, machine shop, hydraulics and pneumatics and electronics. Only after successfully completing the pre-employment training program do applicants become eligible for jobs at Nissan. Once hired, Nissan technicians receive additional skills training in our training center, where every function and skill used in our operations is simulated. For launch training, we even sent 383 supervisory personnel and technicians to Nissan plants in Japan to get actual "hands-on" experience.

Finally, because we know very few people are born with all the skills it takes to work effectively in teams, we work at helping our employees to develop and upgrade related skills. Supervisors and managers are trained in orienting new employees, surfacing group concerns, handling conflict positively and solving problems. We train all employees in communication skills, particularly because we count on the exchange of ideas to solve even the most complex of problems and to improve our technology.

Our training effort is already reaping rewards. We believe that it has resulted in an exceptional work force—one which will provide us with the necessary human resources to become and remain competitive for years to come. It is this work force that will allow us to achieve our one and only corporate objective—to produce the highest quality truck sold in North America.

We believe that our objective can best be achieved in a participative environment that encourages open communication and employee involvement at all levels. To encourage that open communication and employee involvement, we have employee involvement circles similar to Japanese quality circles which are part of a system of escalating cooperation throughout the company.

Nissan's concern for employees is also reflected in outstanding wage and benefit programs. Our wages are generally comparable to those of the other firms in our industry. In addition to most of the standard benefits, we have a lease-car program, through which employees who have been with the company for a year can lease a car at about half the total cost of ownership. A participation rate of 85 percent reflects the popularity of this program. In addition we have a savings plan that allows our personnel to save a part of their salary on a tax-deferred basis. The company matches a high percentage of their savings. We will soon have a fitness center with an indoor running track and exercise equipment for use by all employees. Ballfields and basketball courts are located adjacent to the plants, and ping-pong tables and basketball practice areas are available for use at lunch and other times. We are building an employee recreation area, including a swimming pool, ballfield, running track and picnic area.

Good communications, employee involvement and teamwork are not evolving overnight. We are all learning new behavior patterns, and it is a difficult process. It takes time, training, patience and nurturing. It is a process that begins slowly, but it does gain momentum and really is very exciting to be a part of.

We are already seeing the first fruits of our efforts, and the signs are very good. JOB 1 was ahead of schedule. Our people take pride in their jobs. They already have multiple skills, and they are learning more. They have been asked to think and to help make decisions for the first time—and they like it. They want Nissan to succeed, and they know that they can make it happen.

We think we are giving our employees the opportunity to be entrepreneurs, to be forward thinking, to try new ideas. This is Nissan's answer to the competitive challenge facing the U.S. auto industry today. Obviously, the verdict is still out on how successful we will be in achieving our goals. But we believe that we will be very competitive in both the national and the international marketplace.

NATIONAL ASSOCIATION OF STEVEDORES,
Washington, D.C., September 14, 1983.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The National Association of Stevedores asks that this letter and its enclosures be made part of the Subcommittee's official hearing record on H.R. 1234, The Fair Practices in Automotive Practices Act of 1983. The NAS testified before this Subcommittee on September 28, 1982 in opposition to H.R. 5133, the predecessor of H.R. 1234. In that testimony (enclosed), the NAS stated its total opposition to this bill and to any legislation which would inhibit the free flow of commerce.

In May of this year, the NAS submitted a statement (enclosed) to the Subcommittee on Commerce, Transportation and Tourism of the House Energy and Commerce Committee. That statement reiterated the Association's concerns about H.R. 1234 and provided figures from NAS member companies specifying the amount of work generated by the importation of foreign automobiles.

The National Association of Stevedores opposes H.R. 1234 because it will substantially decrease employment in port-related industries, invite retaliation against American exports, and raise overall transportation costs.

Sincerely,

CHARLES K. UNGER,
Assistant Executive Director.

Enclosures.

STATEMENT OF THOMAS D. WILCOX, EXECUTIVE DIRECTOR AND GENERAL COUNSEL OF THE NATIONAL ASSOCIATION OF STEVEDORES—SEPTEMBER 28, 1982

Mr. Chairman and members of the Subcommittee, my name is Thomas D. Wilcox and I am the Executive Director and General Counsel of the National Association of Stevedores. We appreciate the opportunity to appear before you this morning to express our opposition to H.R. 5133 the so-called Fair Practices in Automotive Products Act.

The National Association of Stevedores is a trade association whose 64 privately owned member companies engage in stevedoring and marine terminal operations on all four of the nation's seacoasts, the states of Alaska and Hawaii, and Commonwealth of Puerto Rico. NAS member companies contract to load and unload ships which call at this country's ports in both domestic and foreign commerce and employ longshore labor to accomplish those functions.

Mr. Chairman, recent Department of Commerce statistics show that over 95 percent by weight of this nation's foreign commerce moves by ships, ships that are loaded or unloaded by NAS member companies and the American longshoremen they employ. Enactment of H.R. 5133 or any other legislation which would impose artificial barriers to the commerce of the United States must be vigorously opposed. Such legislation is contrary to this country's commitment to free and unencumbered trade and invites retaliation from our partners in trade worldwide. Such legislation has a direct, severe and immediate adverse impact upon NAS member companies and their employees. It eliminates or reduces their employment. To attempt to create jobs for one industry and its employees at the expense of another simply doesn't make any economic sense, even though, there are those who think it might make domestic political sense.

The stevedoring/marine terminal industry and its employees will be the first to feel the severe impact of the implementation of H.R. 5133. The Department of Transportation in a letter to Congressman Dingell, dated July 16, 1982, stated that fact most explicitly, and I quote:

"Unemployment in the Nation's ports would result from the loss of 1.9 to 2.9 million automobile imports. We anticipate that 7,600 to 11,600 direct jobs would be lost and 53,200 to 81,200 indirect jobs would be jeopardy at 14 ports on the East, West, and Gulf Coasts. These ports and potential jobs losses are: Boston (900–1,300 jobs), New York (7,700–11,700), Baltimore (6,500–9,900), Hampton Roads (2,200–3,400), Jacksonville, (6,200–9,400), Tampa (900–1,300), Houston (4,200–6,400), Long Beach (6,200–9,400), Los Angeles (6,000–9,200), San Francisco (500–700), Oakland (1,000–1,600), Portland (4,900–7,500), Seattle (4,500–7,000), and Savannah (500–700)."

The proponents of H.R. 5133 have given no explanation or justification as to why some 11,600 longshoremen should be put out of work, or why the 81,000 port related

employees should be placed on the unemployment rolls. In truth, there is none to give.

I'm sure that others will testify about the financial impact of H.R. 5133 on domestic auto prices and other related products but there is another inevitable cost impact which has to be considered. Stevedore and marine terminal companies have substantial fixed operating costs, including terminal rentals, property taxes, equipment financing, maintainance and repair costs, and in some ports guaranteed annual wage payment commitments under collective bargaining agreements. Those costs remain constant despite the amount of work and must be paid, or bankruptcy declared. If there is a substantial loss of revenue due to the loss of the estimated 1.9 to 2.9 million annual automobile imports, that revenue loss must come from another source. The only source available to NAS members is other American imports or exports. Stevedore/marine terminal operators would be obliged to raise their charges to other customers who in turn must raise theirs. The American consumer or exporter then ultimately will pay the increased cost. In the end, everyone ends up subsidizing the American auto industry and its workers. Mr. Chairman, that just isn't fair and makes no economic or political sense.

Finally, Mr. Chairman let me again say that the NAS is unalterably opposed to H.R. 5133 or any other attempt to impose artificial and unwarranted barriers to the free trade of this country.

Thank you.

LIST OF NAS MEMBER COMPANIES

Almont Shipping Company, Wilmington, NC.
Atlantic Container Line, Ltd., New York, NY.
Baton Rouge Marine Contr., Inc., Port Allen, LA.
Border Stevedoring, Brownsville, TX.
Brady-Hamilton Stevedore Co., Portland, OR.
Richard Bugg & Co., Inc., Corpus Christi, TX.
Capital City Stevedores, Port Allen, LA.
Carolina Shipping Company, Charleston, SC.
Ceres Terminals, Inc., Chicago, IL.
Christina Service Company, Wilmington, DE.
Cilco Terminal Company, Inc., Bridgeport, CT.
John T. Clark & Co., Boston, MA.
Codan Corporation, Erie, PA.
Cooper Stevedoring Co., Inc., Mobile, AL.
Bernard S. Costello, Inc., Boston, MA.
Dalton Steamship Company, Houston, TX.
Detroit Marine Terminals, Inc., Detroit, MI.
Dix Shipping Company, Brownsville, TX.
Dixie Stevedores, Inc., Houston, TX.
Eagle Marine Services, Ltd., Oakland, CA.
Eller & Company, Inc., Fort Lauderdale, FL.
Global Terminal & Container Services, Jersey City, NJ.
Gulf Stevedore Corp., Houston, TX.
Harrington & Company, Inc., Miami, FL.
Howland Hook Marine Terminal Corp., New York, NY.
Independent Pier Company, Philadelphia, PA.
International Great Lakes Shipping Co., Chicago, IL.
International Terminal Operating Co., Inc., New York, NY.
Interocean Stevedoring Inc., New Orleans, LA.
Lavino Shipping Company, Philadelphia, PA.
Maersk Container Service Co., Inc., Port Newark, NJ.
Maher Terminals, Inc., Jersey City, NJ.
Manchester Terminal Company, Houston, TX.
Marine Terminals Corp. (of L.A.), Long Beach, CA.
McCabe, Hamilton & Renny Co., Ltd., Honolulu, HI.
John W. McGrath Corp., New York, NY.
Meehan Seaway Service, Ltd., Milwaukee, WI.
Metropolitan Stevedoring Co., Wilmington, CA.
Multi-Terminal Operators, Inc., Old San Juan, PR.
New Bedford Stevedoring Corp., New Bedford, MA.
New Haven Terminal, Inc., New Haven, CT.
Old Dominion Stevedoring Corp., Norfolk, VA.
John Orr & Son, Inc., Providence, RI.

Palmetto Shipping & Stevedoring, Charleston, SC.
Pate Stevedore Co., Mobile, AL.
Pate Stevedoring Company, Tampa, FL.
Pinney Dock & Transport Co., Ashtabula, OH.
Pittston Stevedoring Corp., New York, NY.
Port Houston Terminal, Inc., Houston, TX.
Port Stevedoring Company, Inc., Houston, TX.
Rogers Terminal & Shipping Corp., New Orleans, LA.
Ryan-Walsh Stevedoring Co., Inc., Mobile, AL.
Sealand Terminal Corp., Bayonne, NJ.
Seattle Stevedore Company, Seattle, WA.
Shippers Stevedoring Company, Galena Park, TX.
Southern Stevedoring Co., Inc., Houston, TX.
Southern Stevedoring Co., Inc., New Orleans, LA.
Southside Service Co., Inc., Houston, TX.
Strachan Shipping Company, Savannah, GA.
T. Smith & Son, Inc., New Orleans, LA.
Terminal Services Houston, Inc., Galena Park, TX.
Universal Maritime Service Corp., New York, NY.
Wilmington Shipping Co., Wilmington, NC.
Young & Company of Houston, Houston, TX.

NATIONAL AUTOMOBILE DEALERS ASSOCIATION,
McLean, Va., September 19, 1983.

The Honorable SAM GIBBONS,
Subcommittee Chairman on Trade, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The National Automobile Dealers Association and its over 18,000 franchised new car and truck dealer members welcome this opportunity to submit a statement in opposition to H.R. 1234, the "Fair Practices in Automotive Products Act."

As the trade association representing both domestic and foreign franchised new car and truck dealers, NADA has consistently opposed H.R. 1234 and the basic concepts embodied therein. There is little question in our minds that the protectionist policies incorporated in H.R. 1234 would only serve to raise new car prices to consumers, thereby retarding the industry's current revitalization program. Many of the nation's foreign and domestic dealers would be forced to close their doors as a result of a decreased product line and/or increased prices.

On September 28, 1982, NADA testified before your Trade Subcommittee in opposition to domestic content. Most recently, we testified before the House Subcommittee on Commerce, Transportation and Tourism in opposition to H.R. 1234. Nothing has changed since an earlier testimony to warrant a change in position on this issue. In fact, since our earlier testimony before your Subcommittee, the automobile and truck industry has witnessed a substantial recovery. The domestic manufacturers have posted sizeable profits and the number of dealerships forced out of business has declined significantly. Passage of H.R. 1234 would jeopardize this recovery.

Inasmuch as our position on domestic content has remained consistent throughout, NADA would request that our most recent testimony before the House Subcommittee on Commerce, Transportation and Tourism also be made a part of the public record.

NADA appreciates this opportunity to once again voice our opposition to H.R. 1234 and would hope that the Ways and Means Committee and the full House of Representatives refrain from passing a bill that will increase unemployment and raise new car prices.

Sincerely,

WILLIAM C. TURNBULL, *President.*

STATEMENT OF THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION ON H.R. 1234, "THE FAIR PRACTICES IN AUTOMOTIVE PRODUCTS ACT"

Mr. Chairman and Members of the Committee:

My name is William C. Turnbull and I am President of the National Automobile Dealers Association. I am also a Buick & Subaru dealer, as well as a GMC and International Harvester medium and heavy-duty truck dealer from Huntington, West Virginia. In addition I have a Chevrolet and Oldsmobile dealership in South Carolina. With me today is Frank E. McCarthy, who is the Executive Vice President of NADA. On behalf of the Association's approximately 18,400 franchised new car and

truck dealers, I would like to express our appreciation for the opportunity to testify before you today on H.R. 1234, the "Fair Practices in Automotive Products Act."

Of the 24,000 auto and truck dealers in the United States, approximately 13,100 are domestic exclusive dealers, approximately 3,950 are import exclusive dealers, and approximately 7,000 sell both domestic and import vehicles. These dealers, in the aggregate, employ approximately 696,000 persons.

At the outset, let me indicate that NADA strongly opposes any proposal which would force automobile and truck manufacturers to build in this country with domestically produced components. These decisions, as well as decisions regarding foreign investment in this country should be based on economic realities and not legislative fiat. H.R. 1234 would hamper the ability of domestic auto and truck manufacturers to produce a product that would be competitive in the world markets. This would greatly reduce the ability of the domestic manufacturers to continue extensive production in the United States resulting in the further loss of jobs. Investment by foreign automobile manufacturers has taken place in this country and we believe that additional investment and production will certainly take place in the coming years. On the other hand, these investments would be threatened because these manufacturers rely on components shipped from other countries which would be prohibited by H.R. 1234.

As all of you are well aware, Honda, Nissan, and Volkswagen of America are companies that made decisions to build in this country because they believed that it was in their economic interest to do so. As these plants reach full production they will create thousands of jobs in the United States.

There are a number of serious and troublesome problems with local content legislation from an international perspective. Others more expert than we are in this area have testified that a proposal such as H.R. 1234 would constitute a clear and admitted violation of existing treaty agreements and would almost certainly result in retaliation by foreign governments. However, I would prefer to concentrate on problems that would more directly and immediately impact on the small business automobile dealers of this nation. As far as the small business dealer is concerned, we feel that local content legislation would adversely impact both domestic and import dealers and their approximately 700,000 employees.

As everyone knows, the automobile industry in this nation is now in the process of recovering from one of the longest and most severe depressions in its history. It is our understanding that over 200,000 automobile workers are currently unemployed. This unfortunate situation has been highlighted with frequency and well publicized in the media. A fact that has been less publicized is the staggering attrition and unemployment that has occurred at the retail level among automobile dealers and their employees. Since the current downturn began in1979, approximately 4,125 new car dealers have been forced to close their doors and over 163,000 dealer employees have lost their jobs.

H.R. 1234 will significantly increase the price of import and domestic cars to the American consumer. New vehicle sales are price sensitive. The periodic rebates and interest rate buy-downs offered by the manufacturers are a response to the desire by consumers for lower prices. It is for this reason that NADA has continually urged the manufacturers to lower the price of vehicles rather than to engage in rebate programs which stimulate sales only for the short period of the rebate program. One cannot underestimate the negative impact of increased prices on new vehicle sales. We have seen this happen on several occasions over the last year; when a manufacturer rebate program ended sales drastically declined.

The frequently stated estimate of a ten percent increase in the price of cars to the American consumer, should this bill become law, is extremely significant. In 1982 the average selling price of new cars and light duty trucks purchased in the United States was $9,991. An additional $1,000 per vehicle plus the $312 it would cost a purchaser to finance this price increase (computed at 14 percent for 48 months) would be devastating to both the consumer and the American automobile industry.

We can ill afford to aggravate an already perilous situation by unnecessarily raising new car prices for the American consumer who is already resisting higher prices. The Congressional Budget Office and many others have testified before Congress on the inflationary impact of this bill. To deny the American automobile manufacturer the flexibility it needs to produce a car at the lowest possible price simply makes no sense. By limiting foreign competition and the ability of the domestic manufacturers to search for the lowest price components there is little doubt that the American consumer will have to pay higher new car prices. Increased prices will only serve to drive more consumers away from new car purchases and ultimately retard the industry's revitalization program.

There is no question in the minds of the small business dealers that enactment of H.R. 1234 would result in substantially higher unemployment among automobile dealers and their employees. As the retail merchants whose livings are made selling new cars and trucks, dealers are cognizant of one indisputable fact. High interest rates and high car prices have combined to price many potential new car buyers out of the marketplace.

Dealers and their employees have suffered greatly during the past three years. As mentioned earlier, since the fall of 1979, 4,125 dealers have gone out of business, and 163,000 dealer employees have lost their jobs. This number would have been far greater if thousands of domestic dealers had not been dualed with an import product. Enactment of H.R. 1234 would result in substantial additional unemployment among the 696,000 employees presently employed by dealers.

The solution to increased employment and a healthy domestic automobile industry is not the adoption of a domestic content bill whose benefits are dubious at best. Rather it is to get the federal government on solid financial footing so that interest rates are reduced and sustained economic growth can ensue. Additionally, NADA would continue to urge the U.S. trade delegation to vigorously pursue corrections in the policies of other nations that inhibit free international trade.

NADA opposes H.R. 1234 and would urge the Committee to reject this poorly conceived measure.

Mr. Chairman, NADA appreciates the opportunity to testify before your Subcommittee and would be happy at this time to answer any questions you might have.

STATEMENT OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

Since testifying before the subcommittee last year, the National Foreign Trade Council has not changed its basic position on this bill. Despite its modification, we continue to believe that this proposal would create serious difficulties with our trading partners and lead to a net loss in U.S. jobs while weakening the domestic auto industry in the long term.

The very fact that Congress might seriously consider this proposal gives rise to concern among our trading partners that the United States may turn its back on a commitment to liberal trade. This perception is creating added pressure in some foreign countries for new protection on the ground that if the United States moves in this direction, everyone else should also.

In addition, we would like to call the subcommittee's attention to a recent development which significantly raises the risk of serious problems in our trade relations should this bill pass. Recently a GATT trade dispute panel, hearing a case brought to it by the U.S., decided that a Canadian investment policy aimed at raising the "domestic content" of products sold in Canada violated GATT precepts. The panel found that Canadian approval of investment plans under the Foreign Investment Review Act (FIRA) was based on commitments to purchase Canadian goods in preference to imported goods and thus violated Article III, paragraph 4 of the GATT because it gave less favorable treatment to imported products than to like products of national origin. We have enclosed a copy of the GATT panel discussion with this statement.

The NFTC firmly believes that the domestic content proposal would produce a direct violation of Article III, paragraph 5 of the GATT. This paragraph provides:

"No contracting party shall establish or maintain any internal quantitative regulation which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources."

Now, in its FIRA case, a GATT panel has given a clear signal that the domestic content proposal, by denying the right to sell certain imported automobiles in the United States solely because of their foreign origin, would deny national treatment to imported automobiles and thus would also violate paragraph 4 of Article III.

The United States has long championed the goal of an open international trading and investment system. It reaffirmed its commitment to this goal in the last Economic Summit. As recently as September 9th the President issued an international investment policy statement which emphasized that international direct investment should be determined by private market forces and should receive non-discriminatory treatment consistent with the national treatment principles. This approach is also embodied in the OECD Guidelines on Treatment of Multinational Enterprises.

The GATT and the OECD are two of the principal international institutions created in support of an open international economic system. To enact legislation which is in such stark opposition to GATT and OECD precepts and in such clear

contradiction of present U.S. policy would send a sharp signal to our trading partners that the U.S. had abdicated its leadership role in its effort to liberalize the international economic system.

We believe that the long-term damage caused by such action, in addition to lost export jobs, lost competitiveness and higher prices for car purchasers, would far outweigh the benefit of the slight number of jobs which would be preserved or created for auto workers.

In light of the robust recovery in domestic auto sales, there is less and less reason to support a bill that could temporarily save some jobs in the auto industry at such great expense to the rest of the economy and larger U.S. national interests.

The 98th Congress will consider many proposals to deal with problems of international competitiveness. Domestic content is the wrong choice and we urge this committee to oppose it.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, nonprofit, public-interest organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

H.R. 1234 (deceptively named the Fair Practices in Automotive Products Act) would establish minimum domestic-content requirements for the sale of automobiles in the United States. Designed by the automobile workers union to regain for unemployed U.S. auto workers the jobs they have lost in recent years as foreign manufacturers won unprecedentedly large shares of the massively changed U.S. automobile market, this bill would be abysmally counterproductive. It would also pose severe, costly administrative burdens for U.S. auto makers, foreign auto makers, and U.S. government officials entrusted with enforcement of such legislation. The terms I used in opposing the original "reciprocity" bill introduced this year in the Senate are no less apt (in fact, more so) in describing domestic-content legislation: such legislation would be a cross between a Pandora's box and a can of worms—a cross which the American economy, and the U.S. auto industry itself, should not have to bear.

To the extent that it significantly reduced U.S. auto imports, such legislation would restore jobs to some unemployed U.S. auto workers (and some workers in related U.S. industries) at the cost of a significant number of good jobs likely to be lost in other sectors of the U.S. labor force (including many in the auto workers union itself). The offsetting loss of jobs would result from the loss of U.S. exports in the wake of foreign emulation of such domestic-content practices, retaliation against such U.S. measures by countries directly affected by these U.S. import curbs, and reduction of foreign purchasing power as world trade and income declined. Such legislation would be in violation of the international code of fair competition (the General Agreement on Tariffs and Trade), and would impair the efforts the United States is making to gain and sustain freer access to major foreign markets (including automobile-producing countries) for goods in which our economy excels. Many foreign countries would feel even less inhibition against establishing or magnifying domestic-content or other import curbs, and could be even more resistant to U.S. efforts to get existing restrictions reduced.

Such legislation, establishing the highest domestic-content quotas (as high as 90 percent) for auto producers with the largest sales in the U.S. market, would seriously obstruct efforts the U.S. auto makers are making (and should not cease making) to market automobiles of the highest quality and at the lowest possible price. It would obstruct these efforts by seriously curtailing the flexibility of these manufacturers in their choice of sources of supply for the multiplicity of parts that go into production of automobiles. Although the ingredients of domestic content include advertising and other items that are not "blue collar" production costs, thus tending to lessen the domestic-content requirement for American-made parts, this does not redeem this kind of legislation.

Aside from the effects which economic recession may exert, the bill's potential for restoring U.S. auto jobs is significantly restricted by rising automation in the auto industry, and in the short run (the period of severe hardship for unemployed and under-employed U.S. auto workers) by the considerable time required for construction of U.S. production lines by foreign automobile manufacturers who decide to produce automobiles in the United States. These factors only amplify the many drawbacks of legislation like HR 1234 and, in turn, amplify the need to seek more-

productive, more-prudent ways to help the U.S. auto industry and both the auto workers still making automobiles and those who are not.

In view of the emulatory and retaliatory implications of such legislation for U.S. exports of a wide range of manufactured goods in which this country has a highly rewarding export business, the long-term tendency would be for the United States to become less and less an exporter of manufactures, and proportionately more an exporter of agricultural and mineral products, as increasing numbers of countries followed our example in setting domestic-content rules. It would be unrealistic to assume that automobiles would be the alpha and omega of U.S. recourse to such practices. Other sectors of our economy would be likely to seek similar privileges. Instead of joining the list of countries resorting to such practices, we need a strategy aimed at removing domestic-content rules wherever they exist.

Those who support bills like H.R. 1234 on the thesis that, in the face of substantial barriers impeding U.S. access to foreign markets, America needs to act tough (that sparkling buzzword some people find so appealing) are neglecting the enlightened, productive and responsible ways a country like ours should act tough both in the foreign-policy and domestic-policy dimensions of the current trade challenge. Those who say we should not be "patsy" to aggressive foreign designs on the U.S. market—and that we should restrict our own imports to prove our determination for action—are themselves "patsy" to highly regressive schemes to reveal our resolve. A country that responds to intense foreign competition, and to objectionable barriers impeding U.S. access abroad, primarily by socking its own consumers with import curbs is surely shooting itself in the foot. A protectionist ploy intended as an anti-protectionist tactic to induce freer trade abroad is an exercise in self-deception. The U.S. response to protectionist proliferation around the world should not be to sink into that regrettable rut but rather to raise the world's sights with a radically progressive strategy aimed at programing totally free trade and totally fair trade in concert with whatever countries care to participate in such a charter. Our Council—our Council alone—has urged such an initiative. The reciprocity our country seeks should be the ultimate in progressive reciprocity (free trade itself), not regressive reciprocity that ratchets trade restrictions upward and trade downward. The required strategy is outlined in presentations our Council has made to other congressional committees, including the Finance and Foreign Relations committees of the Senate.

The U.S. labor movement, concerned over the United States losing its impressive shares of world markets in industrial goods, and possibly becoming predominantly an exporter of crude materials, should be opposed to bills like H.R. 1234. The fact that the U.S. labor movement (not just the auto workers) supports and indeed campaigns for this bill—legislation threatening heavy costs to the nation as a whole and to many sectors of the labor movement's own constituency—suggests that the American labor movement (with too few exceptions) may be sinking into a policy bankruptcy that impairs, not only the nation's enlightened self-interest, but also the credibility of the labor movement's concern for the national interest and the wisdom of its positions on other issues.

When the adverse implications of domestic-content legislation for U.S. inflation, productivity, trade policy and overall foreign policy are considered, it is hard to believe that the prime mover behind this bill is the same movement that has done so much—often ahead of other sectors of our society—to advance the nation's best interests. As an old friend of the American labor movement, I continue to expect great things from it. There is much that labor can and should do to prod the government, the business establishment and the public at large to face up to the nation's most pressing needs with deliberate speed and intelligent ingenuity, and in a manner consistent with the nation's highest ideals. With this bill, labor is letting the nation down.

Strong criticism should also be directed at the Administration for not having a coherent domestic redevelopment, full-employment strategy which could have raised the sights of the auto workers, the labor movement in general and the nation as a whole to enlightened policies and objectives that would have diverted energies away from radically regressive propositions such as the policy abomination advocated in this bill.

No less deserving of criticism is the "liberal trade" movement itself for not campaigning for such a redevelopment strategy, which is indispensable, not only to the free-trade strategy that our Council alone has urged, but to the less far-reaching, "freer trade" goals with which the "liberal trade" movement as a whole is currently identified.

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